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BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

- - - - - x
IN THE MATTER OF: : Docket Numbers
STATE OF THE NATURAL GAS : AD05-14-000
INFRASTRUCTURE CONFERENCE :
- - - - - x

Commission Meeting Room
Federal Energy Regulatory
Commission
888 First Street, NE
Washington, DC

Wednesday, October 12, 2005

The above-entitled matter came on for conference,
pursuant to notice, at 9:05 a.m.

BEFORE:

JOSEPH T. KELLIHER
CHAIRMAN

1 APPEARANCES :

2 COMMISSIONER NORA MEAD BROWNELL

3 COMMISSIONER SUEDEEN G. KELLY

4 SECRETARY MAGALIE R. SALAS

5 R. SKIP HORVATH

6 DAVID HALPHEN

7 MARTHA WYRSCH

8 DAVID MANNING

9 PATRICK DeVILLE

10 COMMISSIONER DONALD MASON

11 JAMES CLEARY

12 MICHAEL WALSH

13 SCOTT PARKER

14 TODD SHIPMAN

15 LARRY BICKLE

16 JAMES WILSON

17 RICHARD SMEAD

18 ALEX STRAWN

19 SAM BROTHWELL

20 MICHAEL GILDEA

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P R O C E E D I N G S

(9:05 a.m.)

CHAIRMAN KELLIHER: If we could take our seats, please, we're going to start. Good morning and welcome to the Commission's Conference on the State of the Natural Gas Infrastructure.

Hurricanes Katrina and Rita have had a severe effect on our nation's energy infrastructure in the Gulf of Mexico. Particularly hard-hit is offshore gas production.

Twenty percent of U.S. gas supply comes from the offshore Gulf. Most of that production has been lost in recent weeks, and recovery has been slow.

It's difficult to make up for this lost gas supply. Our country is far more dependent on domestic production for natural gas, than for oil. We produce about 85 percent of the natural gas we consume, importing 15 percent of our supply.

Most of our gas imports come from Canada through an integrated pipeline network. Imports of liquified natural gas account for only three percent of U.S. gas supply, currently.

Neither Canadian nor LNG imports can fully offset the loss of offshore gas production in the near term. The bottom line is that the U.S. has lost a significant share of our natural gas supply, and imports cannot offset this loss.

1 The result will be higher natural gas prices this
2 Winter.

3 The Commission, however, will act to prevent
4 prices from going higher still because of manipulation. To
5 that end, the Commission issued rules two years ago to
6 prevent manipulation of gas markets.

7 The Commission also has new authority under the
8 Energy Policy Act of 2005, to issue rules to prevent
9 manipulation of natural gas markets and to ensure price
10 transparency. We will act swiftly to place regulations in
11 effect in these areas.

12 And we're mindful that tight natural gas supplies
13 could create temptations for improper behavior by some
14 market participants. The Commission will monitor, and, if
15 necessary, investigate and penalize any evidence of market
16 manipulation.

17 To that end, I'm pleased to announce that earlier
18 this morning, Chairman Jeffery of the Commodities Futures
19 Trading Commission and I, signed a Memorandum of
20 Understanding relating to information-sharing and
21 coordination of requests for information made by our
22 respective Agencies.

23 Although this MOU is required by Section 1281 of
24 the Energy Policy Act of 2005, it's an idea that we have
25 been working on for some time, and it formalizes the

1 proposed working relationship between the two Agencies that
2 has been developing in recent years.

3 The MOU allows us to more readily identify and
4 sanction market manipulation. Importantly, the legislation
5 required us to act within six months. We completed the MOU
6 in two months, in part, because of concerns about high
7 natural gas prices this Winter.

8 Now, consumers will see higher natural gas prices
9 this Winter. The only questions are: How much higher and
10 whether such price increases reflect only the operation of
11 supply and demand?

12 Additionally, consumers will be paying higher
13 prices for electricity that is generated with natural gas.
14 We must all work together -- federal regulators, state
15 regulators, and consumers.

16 The natural gas industry is no longer one that is
17 dominated by pervasive regulation. It's driven largely by
18 market fundamentals. Congress, in 1989, deregulated the
19 wellhead price of natural gas, and the market has become
20 more dynamic and responsive.

21 Some states are preparing for this Winter by
22 encouraging energy conservation, allowing local distribution
23 companies to hedge for firm supplies of natural gas, and
24 educating the consuming public through a variety of means.

25 The Commission has invited several state

1 commissioners to discuss these initiatives at our next
2 Commission open meeting, which is scheduled for next week.

3 Hurricanes Katrina and Rita could not have come
4 at a worse time. Tight supplies and demand conditions had
5 already raised prices throughout the Summer of 2005.

6 The continued increases in electric generation
7 demand for natural gas, resulting from years of significant
8 investment in gas-fired generation, and a particularly warm
9 Summer, have greatly contributed to the tight market.

10 The full extent of the impact from Hurricanes
11 Katrina and Rita, is not altogether clear at this time.
12 Many Gulf of Mexico oil and gas platforms were severely
13 damaged.

14 Surveys have only just begun to assess the damage
15 to the thousands of miles of underwater pipes from the
16 platforms to the shore. It has been reported that 26 gas
17 processing facilities have been shut down because of the
18 hurricanes, and there are still 20 out of service. Eleven
19 have sustained damage -- some severe -- and nine more remain
20 offline because of external factors, thus creating a long-
21 term bottleneck between some production wells and the
22 interstate pipelines.

23 The Commission stands ready to act quickly on
24 emergency filings to authorize the efficient use of existing
25 gas infrastructure. Just yesterday morning, Discovery Gas

1 Transmission filed a request for an emergency exemption to
2 transport gas around the Venice processing plant at
3 Discovery's nonjurisdictional Larousse, Louisiana processing
4 plant, and we approved this request by the end of the very
5 same day.

6 Despite the damage to gas processing facilities,
7 there is some good news. All but a few of the interstate
8 natural gas transmission lines onshore in the Gulf region,
9 appear to be in sound shape.

10 Storage injections continue, and, nationally,
11 storage levels are slightly above the average for the past
12 five years. In addition, all five LNG terminals in the
13 Lower 48, are fully operational, sending up to 4.2 Bcf per
14 day into the markets in the Gulf and the East Coast.

15 I note that the trunk line LNG terminal in Lake
16 Charles, Louisiana, took a direct hit from Hurricane Rita,
17 but the high safety standards to which it was built, even
18 though it was built in the early 1980s, before today's even
19 higher safety standards, allowed it to withstand the winds,
20 rain, and storm surges and get back into operation on
21 October 3, even while 80 percent of the federal Gulf of
22 Mexico gas was shut in, and over 90 percent of gas
23 production in southern Louisiana was shut in.

24 In fact, the Commission is very proud of its
25 record in authorizing LNG proposals, with safety as an

1 absolute requirement. In recent years, the Commission's
2 timely approval of the appropriate infrastructure requests,
3 has contributed to a more efficient and reliable natural gas
4 marketplace.

5 To move natural gas to where it is needed, is a
6 major factor in making markets work efficiently. Pursuant
7 to its authority, the Commission has certificated major gas
8 projects totalling almost 8500 miles of pipeline since the
9 year 2000.

10 In addition, over this same period, the
11 Commission has approved over 210 Bcf of storage capacity at
12 new and existing storage fields, providing over 9.7 Bcf per
13 day of deliverability.

14 The Commission has authorized eight new LNG
15 terminals in recent years, that have a combined delivery of
16 12 Bcf per day, as well as expansions at some of the
17 existing LNG terminals, and has approved two projects
18 totalling 1.7 Bcf per day of pipeline capacity that would
19 transplant regasified LNG from the Bahamas to Florida.

20 These efforts will not help increase supplies
21 during this Winter, but they will help in the future.

22 The first agenda item for today's conference will
23 be a presentation by the FERC Staff from our Office of
24 Market Oversight and Investigations, on the current natural
25 gas price situation and their forecast of the effects of

1 Hurricanes Katrina and Rita on supply and prices.

2 But before turning to the Commission Staff for
3 their natural gas situation price report, I'd like to ask my
4 colleagues if they'd like to make an opening statement.

5 COMMISSIONER KELLY: Thank you, Joe. In addition
6 to being concerned about the high prices that we expect this
7 Winter, we're also concerned about the tight gas situation.

8 It's important that the public have the facts
9 about infrastructure repair, so that they can plan for the
10 future. I'm pleased that we're able to hold this conference
11 today, to put some of those facts to the public in a
12 comprehensive way.

13 Knowledge about infrastructure repair in the Gulf
14 is important, because, without that knowledge, there is
15 speculation. Speculation can cause damage in two different
16 ways:

17 Speculation could drive up prices unnecessarily
18 or it could drive down demand response inappropriately. I
19 look forward to hearing from the industry today about what
20 is being done to ensure that your gas and your gas
21 transportation customers, know, on an ongoing basis, what
22 the state of the production and delivery from the Gulf is,
23 so that they can plan for Winter.

24 Also, considering the tight gas situation in the
25 Winter, we're concerned about those consumers at the end of

1 the pipeline. Primarily, that's in New England.

2 We are concerned about the coordination of
3 electric supply and gas heating supply. After a cold Winter
4 in February of 2004, the ISO in New England, established
5 cold-weather procedures.

6 Those procedures should stand us in good stead,
7 and I would like to hear from the American Gas Association
8 today, about whether your curtailment policies will work to
9 ensure that customers have adequate gas for both electric
10 supply and for heating supply.

11 And I would also like to hear from the gas
12 marketing representative, about whether this concern about
13 the coordination of gas for both electricity and heating,
14 whether that will affect your marketing activity, if
15 shortage conditions arise.

16 We also remain concerned about gas quality. This
17 past Summer, the Commission adopted recommendations by NAESB
18 to require pipelines to post gas quality information on
19 their website. The timing of that was very serendipitous,
20 and I'd like to thank NAESB for their quick action in making
21 those recommendations, and to thank my colleagues on the
22 Commission for approving them.

23 So we have information on gas quality, readily
24 available on pipeline websites now. I understand that
25 producers and pipelines are working with each other, one-on-

1 one, through contractual arrangements, to solve gas quality
2 problems as they arise.

3 And I would like to commend industry for that
4 action. This approach is the best one that could be taken,
5 because it maximizes the number of Btus that can be sent on
6 to the customers, while at the same time, ensuring that the
7 quality remains correct at the burner tip.

8 And I'd like the pipelines to explain today, more
9 specifically, exactly how you are working this situation
10 out, and what kinds of contractual provisions you are using,
11 and whether we could expect a cost impact as a result of
12 that.

13 And I'm also interested in hearing from the
14 American Gas Association today, about whether you are
15 satisfied that gas quality will be preserved this Winter.

16 Regarding the second and third parts of our
17 conference today where we're looking at infrastructure in
18 the long run, there are two provisions that Congress put
19 into the Energy Policy Act of 2005, that I would be
20 interested in hearing your views on today:

21 One regards gas storage and new storage
22 facilities. Congress, in EPACT of 2005, has expressed its
23 interest in ensuring that we have new, adequate storage
24 facilities.

25 Congress has given FERC the authority to provide

1 for market-based rates for new storage facilities, even if
2 market power exists. That would be a sweeping change, and I
3 would be interested in hearing your views on whether you
4 think, particularly with the increased price of gas, whether
5 that is going to drive storage.

6 Also, Congress has proposed in the Energy Policy
7 Act of 2005, that various federal agencies with jurisdiction
8 over federal lands, get together and designate pipeline
9 corridors, so that pipelines can be built more efficiently
10 on federal lands.

11 That effort is going to take a few years.
12 Congress has given the federal agencies two years to do that
13 in the Western states, and hopefully it won't take that
14 long.

15 But I would like to hear from the industry today,
16 about whether that effort should be speeded up, or whether
17 you are finding that the agencies have coordinated their
18 efforts, nevertheless, and how efficient that process is for
19 giving you rights of way on federal lands.

20 And, with that, I will turn the mike over to
21 Nora. Thank you.

22 COMMISSIONER BROWNELL: Thank you. I think
23 you've done a wonderful job at describing some of the new
24 tools that we have and how we might use them.

25 I'd like to point out that the tragedy of Katrina

1 and Rita, highlighted what was a growing problem that needs
2 to be addressed, and I hope that in our analysis of the
3 facts -- and I think we need to continue to do this, to put
4 the facts out there -- we really look at the long-term
5 national interest, that the customers will need
6 infrastructure, increased supply, more storage.

7 We need to look at LNG plants on either end of
8 the coasts. They are concentrated in the Gulf area, and
9 while we certainly want to rebuild the Gulf and all the
10 infrastructure there, I think we need to look at the larger
11 needs of this country.

12 What we see now is a growing global gas market
13 with increased stress and increased demand from developing
14 countries, which is perfectly appropriate, but we learned to
15 rely on and have whatever we needed at whatever time we need
16 it, and I think this is a call to action for all of us.

17 I hope, in the discussions that we have today and
18 in the ongoing discussions with the industry, we are very
19 clear about what we need to do in the long term.

20 I worry when I hear people talk about price caps
21 and windfall profits taxes, the very things that we know
22 from past experience will halt investment and halt
23 development in all areas, and so I think we need to get
24 focused on the reality of our situation and begin to look
25 out over the long term.

1 So I'm hoping that we can give the credibility to
2 the Agency, that we will, indeed, be exercising full
3 authority in market oversight, but we will also be the basis
4 of information, so that we can begin doing a better job of
5 planning for our future. Thank you.

6 CHAIRMAN KELLIHER: I'd like to now recognize
7 Jeff Wright from our Office of Energy Projects, to moderate
8 the conference.

9 MR. WRIGHT: Good morning, Chairman Kelliher,
10 Commissioners, panelists, and the attendees gathered here
11 and in the overflow room. I, again, would like to welcome
12 you to the Commission's State of the Natural Gas
13 Infrastructure Conference.

14 My name, again, is Jeff Wright, of FERC's Office
15 of Energy Projects. This is the fourth annual event, fourth
16 annual gas conference that the Commission has held, and
17 today we'll be listening and responding to representatives
18 on all facets of the natural gas pipeline industry as they
19 relate to the state of the pipeline industry, and what
20 changes might spur further interstate pipeline development.

21 And, also, given recent events, our Office of
22 Market Oversight and Investigation, will give us their
23 opinion on short-term price effects, based on the recent
24 hurricanes, and there will be an industry panel that will
25 address the hurricanes' effect on energy infrastructure and

1 the repercussions.

2 Now, as your agenda states, we will have the OMOI
3 presentation, followed by three panel sessions. After
4 delivering their prepared remarks, there will be an
5 opportunity for the panelists to address each other.

6 Then the Commissioners may question the
7 panelists, followed by Staff. If time allows, questions
8 from the audience will also be permitted.

9 If there are any speakers from the audience, I
10 would ask that you step up to the microphone right on that
11 side of the room, introduce yourself and your affiliation,
12 prior to asking your question.

13 Following the panels, there will be an open forum
14 for anyone to raise issues not addressed by the panels. Let
15 me first go over a few points. I will ask that our panelist
16 please adhere to the five-minute time limit for your
17 prepared remarks. If you will spill over, I may make an
18 indication that you should wrap up.

19 Please do not address any pending cases at the
20 Commission, and, finally, breaks have not been built into
21 the schedule, but please feel free to take your own break
22 when you need it.

23 I think we should go ahead to our first item,
24 which is the presentation by Staff of the Office of Market
25 Oversight and Investigations. This presentation will be

1 made by Stephen Harvey, with Robert Flanders and Dean Wight.

2 MR. HARVEY: Thank you, Joe. Good morning, Mr.
3 Chairman, Commissioners, panel members. Today, Staff is
4 releasing our review of energy prices for the Summer of
5 2005, titled Gulf Coast Storms Exacerbate Tight Natural Gas
6 Supplies: Already High Prices Driven Higher.

7 I'd like to spend a few minutes reviewing the
8 major observations from that report: This Summer, the
9 United States experienced extraordinary increases in prices
10 for all types of energy, and unprecedented increases in
11 prices for natural gas.

12 Hurricanes Katrina and Rita exacerbated already
13 tight supply-and-demand conditions, increasing prices for
14 fuels in the United States further, after steady upward
15 pressure on prices throughout the Summer.

16 Most of this price pressure was due to the
17 combined effects of oil prices and increased electric
18 generation demand for natural gas, caused by years of
19 investment in gas-fired generation, and a significantly
20 warmer-than-average Summer.

21 In early April, next-day natural gas prices
22 delivered at Henry Hub, Louisiana, averaged about \$7.40 per
23 MmBtu, the standard units of natural gas prices. Henry Hub
24 is the location we tend to use to represent production area
25 natural gas in the United States.

1 By late September, prices at Henry Hub or at a
2 nearby alternative location, for the period that Henry Hub
3 was physically out of service due to hurricane damage,
4 almost doubled to \$14 per MmBtu. Prices remain today in the
5 mid-\$13 range.

6 There's no denying the important effect of the
7 hurricanes on natural gas prices, however, we see on this
8 slide, derived from Table 1 of the Report, that prices had
9 already risen by a third from that \$7.40 level in early
10 April, to almost \$10 per MmBtu, before the hurricanes
11 struck.

12 I'd like to first spend a little time discussing
13 that pre-hurricane price increase. An important driver of
14 pre-hurricane price increases, was the price of oil, which
15 rose 21 percent, from the equivalent of about \$9.40 per
16 MmBtu in early April, to over \$11.40 by late August, before
17 the hurricanes struck.

18 Consequently, oil doesn't explain all of the
19 natural gas price increase. Staff analytic work over the
20 last few years, has indicated that natural gas prices are
21 strongly influenced by two factors: Oil prices and scarcity
22 of natural gas.

23 The gas market had been tight through the Summer,
24 before the hurricanes, and it's useful to review why. The
25 Summer of 2005 was abnormally hot, as measured in

1 population-weighted cooling degree days, which are
2 calculated by the National Climatic Data Center.

3 The period from June through August was the
4 hottest on record, and 26 percent hotter than 2004. This
5 chart, which is taken from Figure 2 of the Report, shows a
6 hotter September, as well.

7 As a result, electric generation from June
8 through September, was significantly greater than generation
9 over the preceding five years.

10 This chart, which is Figure 5 in the Report,
11 shows the Edison Electric Institute's figures on electrical
12 output for the year. With the heavy addition of natural gas
13 generation investment over the past decade, we would expect
14 that increased electric demand would drive increases in
15 natural gas demand, and the statistics available to us, bear
16 this out.

17 Using the Energy Information Administration's
18 monthly electricity flash estimates, we can develop a sense
19 of electric generation, by fuel, for June and July. Overall
20 generation increased by six percent over 2004 for those two
21 months.

22 Generation by almost all fuel types increased,
23 but generation from natural gas increased, by far, the most
24 -- 21 percent for those two months, over the 2004 levels.

25 To understand the effect that demand had on

1 natural gas, the most accessible data is storage
2 inventories. In early April, the EIA reported that storage
3 inventories were about 225 Bcf above the preceding five-year
4 average.

5 By late September, that advantage had dropped to
6 about 40 Bcf. More strikingly, this graph, which is also
7 Figure 3 of the Report, shows that the injection rate has
8 been much lower than last year.

9 While not resulting in immediate scarcity, it
10 appears clear that the strain on the system of a hot Summer,
11 did have an effect on natural gas prices, as buyers and
12 sellers took into account, tighter conditions for entering
13 the Winter than in the past couple of years.

14 In effect, anticipation of tightness, seems to
15 have affected prices, even before the hurricanes struck.
16 The likelihood of a bad hurricane season was understood when
17 the National Oceanic and Atmospheric Administration
18 increased its already-above normal forecast for hurricanes
19 on August 2nd.

20 Market participants were familiar with the
21 potential for disruption in the Gulf, following Ivan in
22 2004. Hurricane Katrina, and, later, Hurricane Rita, had
23 and continue to have significant effects on Gulf Coast
24 production.

25 This graph, also Figure 4 in the report, plots

1 gas shut in in the Gulf, over time, starting with landfall
2 of Katrina, through Rita, against the experience last year
3 with Ivan.

4 As you can see, the effects and Katrina and Rita
5 are greater and are proving more enduring than for Ivan.

6 These effects brought prices for natural gas up
7 the additional 44 percent from pre-hurricane levels, with
8 little relief since.

9 In general, we see the beginning of a Winter
10 season with a new set of dynamics likely to drive prices
11 over time. Fortunately, current storage inventories remain
12 above five-year averages.

13 The timing, however, for repair of Gulf
14 infrastructure, remains unclear, and continued outages could
15 stress the system. We are, in effect, at the point where
16 heating season demand, and, to some extent, anticipation of
17 that demand, are likely to drive prices.

18 Over the next month or two, any new major
19 forecasts of Winter weather, will probably elicit price
20 responses. When we enter the heating season itself,
21 relative cold periods are likely to have strong effects on
22 price.

23 We start at the production area prices already
24 above \$13.50 per MmBtu, close to two and a half times as
25 high as last year at the same time. Our Report, available

1 on the Commission's website and in the back of the room here
2 for the people in attendance, makes clear that the most
3 significant reasons for this increase in price, are factors
4 like oil price increases, heavy electric generation demand,
5 and hurricane disruptions.

6 With the support of Bob Flanders, who leads
7 Oversight's Natural Gas Team, and Dean Wight, who leads the
8 Electricity Team, I'm happy to entertain any of your
9 questions.

10 COMMISSIONER KELLY: Steve, is it fair to say
11 that the impact of higher gas prices will be felt this
12 Winter, not only in heating, but also in electricity?

13 MR. HARVEY: Definitely, very much so. And we've
14 seen -- and, in the Report, we actually discuss this. I
15 didn't go into it today, but forward electric prices have
16 also increased significantly during this time, largely
17 driven, I think, again, by the anticipated natural gas
18 prices.

19 COMMISSIONER KELLY: Regarding the trading in
20 natural gas and the force majeure at Henry Hub, what kind of
21 an impact have we seen in the market from that?

22 MR. HARVEY: A number of the pricing points along
23 the Gulf have been much thinner than in our experience, as
24 the disruptions took place. Henry Hub -- it's interesting,
25 because Henry Hub was out for two periods -- one shortly, I

1 believe, after Katrina, I think, for a day or something, and
2 then for about a week or week and a half after Rita.

3 Those were both at the ends of months, and
4 related somewhat to trading of the futures prices for
5 natural gas. And so there was actually, particularly at the
6 end of September, closing out the October futures contracts,
7 Henry Hub was not available.

8 Now, NYMEX has alternative delivery capabilities
9 within the underlying contracts of the futures market, and
10 so, in effect, that delayed some deliveries from September,
11 and delayed some anticipated deliveries from October, but
12 the October price actually closed on a day when Henry was
13 not available, and it wasn't completely clear, when Henry
14 would become available.

15 In order not to move some of those contracts to
16 physical, basically folks were asked to clear out their
17 positions. And that looks like it added to a little bit of
18 price movement within that day.

19 That averaged out and didn't look like a
20 particularly meaningful thing, so it's a long way of saying
21 that it was disruptive, but the market systems appeared to
22 take that into account and appeared to work through that,
23 nonetheless in an environment of an extremely high price
24 result.

25 COMMISSIONER KELLY: Thank you. It's important,

1 as we go forward, to know with some confidence, the
2 infrastructure availability in the Gulf. How are we getting
3 that information?

4 MR. HARVEY: Bob, you're probably the best person
5 to answer that.

6 MR. FLANDERS: Well, we've been participating in
7 an interagency conference call, virtually every morning
8 since the hurricanes, and there's been an exchange of
9 information between the Department of Energy, Mineral
10 Management Service, and the Coast Guard and FERC and other
11 Agencies, pretty good track of what's coming up and what's
12 not.

13 We get reports from the industry about service
14 outages, and we speak with the industry directly. So I
15 think we're in pretty good shape with that information.

16 COMMISSIONER KELLY: So, do you find that your
17 discussions with industry directly, are consistent with the
18 data that we're getting from the Department of Energy?

19 MR. FLANDERS: Yes.

20 COMMISSIONER KELLY: Thank you.

21 COMMISSIONER BROWNELL: Sudeen, I was in an in
22 oil and gas conference in Houston yesterday, where a number
23 of the industry leaders were saying that it may be months
24 and months and months before we actually know the extent of
25 the damage.

1 The surveys are ongoing, but it's going to be a
2 long time before we can get accurate information, which, I
3 suspect, Steve, you might want to comment on, may cause even
4 a more schizophrenic reaction.

5 You talked about anticipation, and we've seen for
6 the last couple of years, that, for example, market
7 reactions to storage reports, were unusually strong, because
8 people were behaving in ways that they haven't behaved
9 before.

10 So, is it fair to say that we're going to see
11 even more volatility or volatile responses to information
12 like how much and how long things will be out?

13 MR. HARVEY: Sure. We've seen, I think, more
14 volatility. I haven't calculated it on a percentage basis,
15 with sort of the right way to calculate volatility, but
16 we've seen very, very broad movements up and down, within
17 days, in trading.

18 The easiest way to see this is in the futures
19 market, but we're seeing many of the same drivers in the
20 next-day physical market, movements, you know, down 50 cents
21 and up a dollar, and just that kind of intraday movement is
22 much greater than what we've experienced in the past, and,
23 again, not unnatural, given the conditions.

24 The other thing is, with lower amounts of
25 activity in the Gulf, certainly over the last month or so,

1 those prices and those price relationships in the Gulf, are
2 very different, and it's -- we have to be careful, because a
3 lot of the way we look at things, is to look at
4 relationships we've seen in the past.

5 If the physical system is disrupted, those
6 relationships don't necessarily mean the same things that
7 they meant a couple of months ago. So, we're trying to be
8 careful about that.

9 The more we can understand about the way the
10 facilities work, the better we can kind of keep up with
11 that, but a lot of what we've understood in the past about
12 these relationships, doesn't really relate now, because the
13 facilities have reconfigured themselves, effectively.

14 COMMISSIONER BROWNELL: So, conceivably, under
15 other sets of circumstances, what might look like potential
16 manipulation of the marketplace or price misreporting, is
17 simply that we're in a new area that we really don't have
18 much history with; is that right?

19 MR. HARVEY: Yes, in particular, what we do a lot
20 of and what we do really in this Report, even, is, we look
21 at relationships. We look at the oil/gas relationship; we
22 look at the storage level/gas relationship, based on
23 history.

24 That's sort of the main way we can look at these
25 things. And we just -- you're absolutely right; we have to

1 be careful in that history. We haven't been in this
2 circumstance before, where seven, you know, Bcf of daily
3 production, is no longer in the system and the pipeline
4 configuration isn't working the way it used to.

5 So I would absolutely agree, we have to be very,
6 very careful in thinking about manipulation, that we're not
7 just making analogies to times that don't really relate.

8 COMMISSIONER BROWNELL: On another topic, have you
9 heard anything about LNG deliveries being diverted to
10 Europe, because they are paying higher prices, and have we
11 begun to see any impact? Is there any way of measuring
12 that?

13 MR. HARVEY: We have been keeping up with that.
14 We've seen some of the international work, IEA's work and
15 others' on that.

16 We have, in fact, seen cargoes in the past,
17 diverted, in effect, from Lake Charles, into Europe. You've
18 got to remember that in the United States, and particularly
19 with regard to Lake Charles, Louisiana, we tend to be spot
20 buyers of LNG.

21 And the spot market for LNG is maybe only ten
22 percent of the total. Most of it is done under term
23 contracts.

24 We're competing heavily in that spot market with
25 Korea, and increasingly with England, which seems to be

1 building spot capacity, and a little bit with Spain, as
2 well. I think we've seen some of that in the past.

3 Since the hurricanes, in particular, and with the
4 price increases, we have, in effect, been setting that spot
5 price. Henry Hub, in effect, today, sort of sets the floor
6 for the spot price, because we'll take anything we can at a
7 fairly high price, compared to others.

8 As we go into the Winter, anticipated weather in
9 England, in particular -- our expected Winter prices and
10 their expected Winter prices, are pretty close, and so we
11 may well be going -- right now, it makes a lot of sense to
12 send gas to us, because our price is very strong.

13 As we go into the Winter, we may be competing
14 again for the spot supplies, and we may be losing out on
15 some of those cargoes.

16 COMMISSIONER BROWNELL: Thanks.

17 COMMISSIONER KELLY: I wanted to emphasize what I
18 think is the take-away from your presentation regarding
19 market manipulation, if you confirm that. The Office has
20 been looking at all possibilities of market manipulation and
21 in cooperation with the Commodities Futures Trading
22 Commission, and to date, you haven't seen any market
23 manipulation, but, rather, you've seen prices that reflect
24 the fundamentals of the market; is that correct?

25 MR. HARVEY: Can I state it slightly differently?

1 COMMISSIONER KELLY: Yes, you may.

2 (Laughter.)

3 MR. HARVEY: What we did, in particular, in this
4 Report, I think, is to explain a combination of
5 fundamentals, and, I think, fairly easy-to-understand
6 concerns and anxieties. And I think they show,
7 compellingly, that these prices are not unreasonable,
8 compared to that.

9 To make the stronger statement that you laid out,
10 that people, in effect -- we didn't say it exactly that way,
11 but that people in effect, aren't manipulating, is something
12 I would not want to do.

13 These are conditions where people can do
14 manipulative things, and it is very much, I think, the
15 expectation of Staff and our expectation of what we do in
16 our jobs, to continue to look for that through this period.

17 We do think it's very important to understand how
18 strong some of these fundamental market drivers are, so that
19 people do understand, you know, the price today is two and a
20 half times what it was last year at the same time, and
21 that's an extraordinary change, but it's really coming from
22 extraordinary circumstances, in general.

23 So, I can't go quite to the way that you framed
24 the story, but I do think -- and I hope the Report does this
25 -- I do think we make a compelling case for why we would be

1 in this kind of an area at this point.

2 COMMISSIONER KELLY: But in the meantime, you are
3 working with the CFTC on a daily basis, to investigate those
4 gas prices to assure us that there's no manipulation going
5 on?

6 MR. HARVEY: I'm more familiar with the oversight
7 relationships between the two, which are very strong. I
8 think the investigation -- from a little bit more distance,
9 the investigation relationship has been very good, and, I
10 think, this morning's MOU will just improve that
11 relationship.

12 So there have been very good relationships
13 between our Staff and their Staff over the last few years,
14 and I think that it's nice to recognize that that's really
15 important going forward, and that everyone is heading in
16 that direction.

17 COMMISSIONER KELLY: Thanks, Steve.

18 COMMISSIONER BROWNELL: Steve, though, I think
19 the point she's making -- and it's a good point -- is that
20 you and your colleagues are doing the analytics on a daily
21 basis, and if those analytics cannot be explained by what is
22 clearly a dysfunction caused by the fundamentals, that you,
23 in fact, will go further.

24 If it leads to an investigation, it leads to an
25 investigation.

1 MR. HARVEY: Right.

2 COMMISSIONER BROWNELL: I wouldn't want to leave
3 anybody with the impression that we have silos that are
4 unrelated.

5 MR. HARVEY: Oh, no, not at all.

6 COMMISSIONER BROWNELL: Nor that we really don't
7 know if there's manipulation going on, that we are -- that
8 our job and the reason we're here today, is that we're going
9 to be on top of this all Winter. We're not going to be in
10 the situation we were four years ago, where we did not know
11 what was going on in the California markets.

12 MR. HARVEY: No, we run daily -- a number of
13 reports, and we do a lot of looking at particular markets.
14 We do, again, look at those relationships, and it's an
15 interesting period, as we discussed a minute ago, because
16 some of the historical relationships don't necessarily apply
17 anymore.

18 But that gives us a lot of things to look at,
19 because they don't like the historical relationships. And
20 we do exactly as you say, investigate.

21 We've got to be careful about using technical
22 terminology here. We really examine those situations that
23 don't look like history, and say, is there a good reason for
24 this?

25 To the extent that there doesn't appear to be a

1 good reason for this, we can move through the investigation
2 process and do and have moved into the investigation
3 process, when that's appropriate.

4 COMMISSIONER BROWNELL: Good, because I think we
5 owe it to the customers of this country, to have some
6 assurance that somebody's looking out after their well
7 being, and that we're not guessing.

8 MR. HARVEY: Particularly at these price levels,
9 I think that's absolutely true.

10 COMMISSIONER BROWNELL: Thank you.

11 COMMISSIONER KELLY: Thank you, Nora.

12 CHAIRMAN KELLIHER: I have a couple of questions.
13 First, Hurricanes Katrina and Rita caused loss of domestic
14 oil production, as well as gas production.

15 But we seem to have been able to offset that loss
16 more readily. And we've been importing more oil, more
17 product, as a result, and prices seem to have fallen off.

18 Now, your Report cites a Sierra projection that
19 we will not be able to similarly offset the loss of domestic
20 gas production through increased imports. Could you explain
21 why, why can't we increase gas imports?

22 MR. FLANDERS: Primarily, there's a capacity
23 explanation and a market explanation. Canadian gas, there's
24 only a certain amount of pipeline capacity to be available
25 to bring that in.

1 Most of the Canadian supply is spoken for
2 already. It would be very difficult to ramp up Canadian
3 production, and the capacity isn't there to bring it into
4 the country.

5 On the LNG side, there's a similar explanation.
6 There is some spare capacity in the LNG import terminals,
7 but the international supply is, as Steve mentioned, subject
8 to spot market conditions.

9 The prospects of bringing more in this Winter,
10 are good, but certainly not enough to bring in six or seven
11 Bcf a day. It's too big a hole to fill.

12 CHAIRMAN KELLIHER: Are Canadian imports at the
13 capacity of the pipeline or the capacity of the Canadians to
14 produce gas?

15 MR. FLANDERS: I think the limitation is Canadian
16 production capacity, with the pipelines going into the U.S.
17 at an average around 75-percent load factor. The lower load
18 factors are in the West, and bringing more into the West,
19 really won't help markets in the East.

20 It's primarily constrained by supply, but even if
21 the supply was there, there's only a couple Bcf of capacity
22 that we could really call on, to bring extra gas in, if it
23 was there.

24 MR. HARVEY: Fundamentally, at this point,
25 imports are a much more important component of the oil

1 market in the United States, than the gas market. There's a
2 lot more robust infrastructure around oil import capability
3 than there is around gas import capabilities.

4 That may well change with LNG infrastructure over
5 time, and we may look more and more like the oil side.
6 Right now, there's not enough room there to make up for it
7 in imports, the way there is on the oil side.

8 CHAIRMAN KELLIHER: Your Report has a figure
9 looking at the loss of production resulting from Katrina and
10 Rita, compared to Ivan. Could you explain what the price
11 effects of Ivan were? How much did gas prices rise, for how
12 long a period of time?

13 You said that the production loss was greater and
14 more enduring from Katrina and Rita. Will the price effects
15 similarly be greater and more enduring?

16 MR. HARVEY: Figure 4, I think, is the chart that
17 talks about that in the report. There was an effect
18 immediately of Ivan.

19 There was a pretty fast initial response in terms
20 of supply. If I remember correctly, there was something of
21 a pullback then on price, and, then, over time, as we went
22 into that Winter, it was a fairly mild Winter, and so the
23 supplies were quite adequate during that process, at the
24 level of post-Ivan production.

25 That's kind of what I'm saying at the end of the

1 presentation. I think we've moved from the point where it's
2 supply issues, in effect, that are driving what prices might
3 be, and more and more, it's going to be anticipation of
4 demand.

5 What it really revolves around is, what kind of
6 Winter are we talking about? If we're talking about a warm
7 Winter, you could conceivably see inventories return.

8 There's the time to fix the infrastructure, where
9 you come out of the Winter in a pretty strong position, at
10 which point this level of price wouldn't make as much sense.
11 You'd expect something closer to pre-hurricane kinds of
12 levels on prices.

13 If, however, the Winter is sort of normal, if,
14 however, the post-Rita, in particular, production levels,
15 production shutdowns, don't come down over time, then we
16 could be very much tighter in the Winter. That would look
17 like probably -- markets do strange things sometimes -- but
18 that would probably look like, as anticipation increased
19 about getting very tight, running through storage
20 inventories.

21 Prices would come up, sort of in the course of
22 the Winter, but a lot of that, I think, will really be
23 driven by whether shorter-term forecasts of weather, in
24 terms of how much stress the demand side is going to put on
25 the system --

1 But we're clearly in a much different situation,
2 I think. Ivan came back much more quickly in terms of
3 production, so that supply concern remains.

4 In fact, I'm looking forward to the next panel to
5 kind of see if we can get a better sense of some of those
6 issues after Rita and Katrina.

7 CHAIRMAN KELLIHER: Is the worst news for
8 consumers, price, or is there really a question about
9 adequacy of supply in a cold Winter?

10 MR. HARVEY: If the Winter is severe enough --
11 and I don't know exactly, what "severe enough" means --
12 there could be supply issues toward the end of Winter, in
13 particular, probably more regionally than not.

14 If look regionally at storage levels, and if you
15 look regionally at access to production and supply, this
16 Winter, the West is in very good shape. Storage levels are
17 quite high in the West, and the access, particularly to
18 Rockies gas in the last couple of years, is quite good.

19 The situation in the Gulf in terms of Eastern
20 storage, is good, compared to the five-year average, but not
21 terribly strong, and a lot of production would come from the
22 Gulf that would support the East. The farther you get up
23 into the Northeast, the more the concern that in a harsher
24 Winter, you might have inadequate supplies.

25 It is a possibility. I don't know enough in

1 terms of kind of the supply conditions and the likely demand
2 conditions to say how much of a possibility it is, but I
3 think it is a concern out there.

4 CHAIRMAN KELLIHER: I just have one last
5 question. There have been some recent estimates that price
6 will balance, supply and demand will balance, but at a level
7 that involves pretty significant demand destruction by
8 industrial customers. Can you give us some assessment of
9 what that might entail?

10 MR. HARVEY: We've actually seen, in the last
11 couple of years, a lot of what I would say is called demand
12 destruction, particularly chemical plants that that sort of
13 thing. I'm not exactly sure what's next. I'm sure it's in
14 the industrial sector, but I think we've kind of taken out
15 the folks that can easily stop consuming, and we're at the
16 point where I think there are more and more serious kind of
17 issues as we go further through.

18 The supply disruption possibilities that will
19 really require a sort of a demand response, I think, will be
20 shorter-time, more geographically located, so, for example,
21 the Northeast, where you might need to have that kind of a
22 responses, seems like there may be a whole lot of industrial
23 load that you could actually use, that you can destroy, in
24 effect, in order to protect the residential customers in
25 that process.

1 It's not a great answer. Our understanding of
2 the switchability is not great. Sierra has done some
3 studies on that in the past, and we can find those, but it's
4 really kind of an attempt to second-guess their industrial
5 users and their value at different levels.

6 We've kind of done the easy demand destruction
7 already, getting up to the pre-hurricane level. The post-
8 hurricane level will be interesting to see.

9 CHAIRMAN KELLIHER: But if prices rise high
10 enough, will it mean an interruption of activity by
11 industrial customers, or a cessation of activity?

12 MR. HARVEY: I would guess you'd get a short-term
13 response and you'd get a long-term response. The short-term
14 response, in a rough Winter, later into the Winter, you
15 would have short periods where people just turn off
16 factories for a duration.

17 We saw a little bit of that in California in
18 2001-2002. In the long term, I think you will see what
19 we've seen, again, in the chemical sector and in other
20 areas, which is people moving those industries offshore or
21 to places where energy is less expensive for them, because
22 they have to, because they're just not going to be able to
23 compete at the levels we're talking about.

24 I suspect that you can see both of those over
25 time, particularly, again, if we go through a tight Winter

1 and prices remain sort of at post-hurricane kind of levels.
2 I think there will have to be a lot of thinking on that
3 industrial sector.

4 COMMISSIONER KELLY: I had one final question
5 about price in the longer term. Economics 101 would tell us
6 that if we add more supply, demand remaining the same, that
7 the price will come down. If we add more LNG supply, given
8 that our domestic supply is pretty much max'd out at the
9 moment, do you anticipate price coming down, or is the LNG
10 price set internationally, and, if so, is it at a point
11 where it will not bring our prices down?

12 MR. HARVEY: First, I have to clarify one
13 assumption to answer the question -- or two conditions. If
14 our LNG development comes through long-term contracts,
15 primarily, that would imply one set of relationships.

16 If it comes through the spot price, it will imply
17 a different set of relationships. Over time, I would expect
18 that it could have a lowering influence, overall, in price,
19 if we had more imports, at least for some period of time.

20 In the short term, however, my understanding is
21 that the liquefaction trains, in effect, are not there
22 enough. There isn't enough of that right now. I think
23 there are plenty of ships or soon will be plenty of ships.
24 There are a lot of them being built right now, but that
25 liquefaction, that supply end of things, isn't strong

1 enough.

2 We do have understand, at the same time, that
3 we're pushing that market harder and harder. Again, I
4 think, on the spot end, my understanding is that the
5 Koreans, the Spanish, and Great Britain, are also
6 increasingly entering that spot market, so, in the short
7 term, we could actually see a lot of competition for that
8 marginal supply, and we could see those prices being pretty
9 high.

10 Certainly today, it is hard to see why LNG prices
11 would go below the Henry Hub price, because at this point,
12 the suppliers are in that position, suppliers of LNG are in
13 that position. As those trains get built, as that develops
14 over time, there should be a moderating effect, at least to
15 some degree, though it does mean an industry more like the
16 oil industry, where there is greater exposure to
17 international dynamics than we've experienced in the past
18 for natural gas.

19 COMMISSIONER KELLY: Is it the bottom line that,
20 at least in the near term, that we are not going to see a
21 significant decrease in price?

22 MR. HARVEY: I can come up with a scenario where
23 we might: A very mild Winter, a quick return for capacity
24 out of the Gulf.

25 Is that the most likely scenario? Probably not.

1 I mean, I could imagine one, I could put one together.

2 COMMISSIONER KELLY: But we shouldn't plan on
3 that?

4 MR. HARVEY: I wouldn't plan on it.

5 COMMISSIONER BROWNELL: I just have a couple of
6 quick questions -- one, a suggestion, actually. That is,
7 maybe we want to seek out the chemical associations like
8 ELCON and some of the other big industrial users, maybe some
9 of the folks who are going to testify next, and talk about
10 what the customer reaction is.

11 Even though we might have seen and gotten out all
12 that we can in the short run, for the long-term, I think
13 there are some business decisions being made that people
14 will go offshore. That affects jobs and the economy, so I
15 think we ought to begin to talk about that.

16 Bob and Steve, you touched on this, but I can't
17 leave without stating the obvious, and that is that we are,
18 in fact, relying on some of that spot market for LNG, but we
19 could change the relationship, if we built more
20 infrastructure to accept LNG.

21 So, in New England, for example, where, under the
22 best set of circumstances, they're tight, we'll need to
23 increase the availability of LNG. That would address some
24 of the constraint and cost issues over time; is that
25 correct?

1 So, Bob, when you were saying that that couldn't
2 make much of a difference, it can in the short term, but it
3 would seem that -- most of New England says they don't want
4 any more infrastructure. I think the Connecticut Attorney
5 General not only objects to any more transmission lines, but
6 also Islander East and offshore LNG and LNG in other states.
7 Rhode Island objects, Massachusetts objects.

8 Let's just talk about, you know, how we might
9 address that equation. We could rely on long-term
10 contracts; is that correct?

11 MR. FLANDERS: Long-term contracts would help
12 make an LNG investment, lower risk, and probably would
13 produce a more likely -- or make a project more likely to be
14 successful.

15 The primary benefit of LNG in New England would
16 be to reduce or mitigate capacity constraints. We've seen
17 very high prices, and forwards into New York and New
18 England, this coming Winter, are in the \$20-plus range,
19 because there's constrained pipeline capacity.

20 LNG coming directly into New England or back down
21 from Canada through some of the Maritime Project proposals,
22 would likely reduce that basis differential and there would
23 be a direct benefit and lower prices in New England because
24 of that.

25 That's something that New England gas consumers

1 could look forward to in the future with LNG.

2 COMMISSIONER BROWNELL: Maybe if consumers got
3 better information from policy leaders, they might make
4 other decisions. Maybe David Manning, on the next panel --

5 (Laughter.)

6 COMMISSIONER BROWNELL: -- can talk about LNG
7 and the difference, actually, it has made with the Everett
8 plant.

9 But I also want to say that we're seeing
10 declining production in Canada. We're seeing an increase in
11 demand in Canada, so I think that to suggest that we can
12 rely on them having LNG plants and taking care of us, might
13 not be to respect their economic needs.

14 I think we need to look at that, as well.
15 Thanks.

16 CHAIRMAN KELLIHER: Thank you for your
17 presentation. We will take a very short break at this
18 time.

19 (Recess.)

20 MR. WRIGHT: If we could resume the Conference,
21 please, could everyone take their seats?

22 Thank you for your patience. We had a little
23 technical glitch there, but now we're ready to commence with
24 our first panel. I note that this panel of industry
25 representatives, will address their view of the recent

1 hurricanes, what damage was done, what needs to be repaired,
2 the effect on the coming Winter, and what lessons were
3 learned from this experience and how they can be applied to
4 the region and to the country as a whole.

5 With us today, from left, is R. Skip Horvath,
6 President and CEO of the Natural Gas Supply Association;
7 David Halphen, Vice President of Regulatory Affairs and
8 Administration from Enbridge Offshore Pipelines; Martha
9 Wyrsh, President and CEO of Duke Energy Gas Transmission,
10 on behalf of the Interstate Natural Gas Association of
11 America; David Manning, Sr. Vice President of Corporate
12 Affairs, Keyspan Energy, on behalf of the American Gas
13 Association; and Patrick DeVille, Director of Marketing,
14 ENSTOR.

15 We'll start with Mr. Horvath.

16 MR. HORVATH: Thank you, Jeff, and good morning.
17 We're here to help update our Winter outlook, which we gave
18 a few weeks ago, and on a day that just happened to be a
19 couple of days after Hurricane Rita.

20 So while we knew we had a pretty good handle on
21 Hurricane Katrina's effects, we really had nothing to say
22 about Hurricane Rita, so let me provide a little bit of an
23 update on that.

24 The bottom line, however, is that what we told
25 you then was that we were going to have reliable supplies

1 for this Winter, and I can say that, now having seen the
2 effects of Rita, as devastating as they were, the natural
3 gas market is already compensating to assure that post-
4 hurricane reliability to firm-service customers this Winter,
5 will be available, so we are pleased to report that.

6 As far as the hurricanes themselves go, in front
7 of you is a chart that looks like this. It's a color chart,
8 and is in black and white for those in back of me. We don't
9 have one of the cameras, so let me describe in a few words,
10 what this says.

11 Hurricane Ivan is the red line, and took off
12 about six net Bcf a day when it hit, and, as you can see,
13 recovery was very rapid. Hurricane Katrina took off about
14 nine and a half Bcf a day. It was a more devastating storm
15 than Ivan was.

16 You can also see, however, that the recovery rate
17 was roughly just as fast. It's coming back very quickly.

18 Then Hurricane Rita hit, taking off not quite
19 nine Bcf a day, in total, and you can see that the recovery
20 rate is much slower. Why?

21 Well, the reason is, we're actually recovering
22 from two hurricanes there, not just one, and it's going to
23 be a little slower than Ivan. Ivan was a fairly bad
24 hurricane, but it was less than half the punch of the two
25 that hit us this time.

1 And the dotted line that you see to the left and
2 right, the left is what we know as of yesterday from MMS and
3 recovery, and right is what EEA has helped us project, going
4 forward. So you can see a constant -- more or less constant
5 recovery with different rates going forward through March.

6 How much -- what does this mean in numbers?
7 Well, roughly two to two and a half Bcf a day, on average,
8 we expect to be offline for the Winter. Of course, it gets
9 less and less as you go on. It starts higher and it gets
10 less as you go on.

11 And Ivan took off about a Bcf a day, a little
12 less than a Bcf a day, so we're about a Bcf and a half a day
13 worse than Ivan, so to speak, for this Winter. So, then,
14 the next question is, well, how does -- how can supply, how
15 can demand, how does the market make up for that?

16 So let me try some numbers. I'm going to use
17 round numbers only, to try to make it simple, so it's not
18 going to add exactly.

19 But assuming a normally cold Winter -- and, by
20 the way, we're expecting a warmer than that Winter, except
21 for the East Coast, which will be normal, but assuming a
22 normally cold Winter for the whole country, demand is
23 expected to be around 73 Bcf a day.

24 On the supply side, domestic, Canadian, and LNG
25 supplies, are expected to be about 60 Bcf a day, so you say,

1 well, that's 13 Bcf a day short, but we didn't talk about
2 storage.

3 For storage to fill that gap, we would need about
4 -- that's about 13 Bcf a day storage for the Winter, and
5 you'd need about 19 or 20 Bcf to do that, to make that up.

6 Well, we're expecting 3100 in storage within a
7 few weeks. That's a very conservative number, by the way.
8 Some are expecting 3200.

9 But let's just say it's 3100, the lower number;
10 that still leaves about 1200 Bcf in storage at the end of
11 the Winter, and 1200 Bcf in storage is what we had at end of
12 the last Winter, and that was a record high.

13 So, making conservative assumptions, we think
14 it's very easy to get -- you know, just looking at the facts
15 of this Winter, we think it's very easy to get to the point
16 where you say, okay, we're going to be reliable this Winter.
17 That is our simple story.

18 To address the Canadian question earlier, by the
19 way, in our Winter outlook, we said about 9.1 Bcf a day we'd
20 be getting from them over the Winter. It's now up to 10.1.
21 We've been working with our Canadian friends, with CAPP,
22 Canadian Association of Petroleum Producers, our sister
23 association up there, and they assure us that they are doing
24 everything they can and that they are working to get more
25 gas down to us for this Winter, so we're very pleased to

1 report that.

2 In addition, of course, since we gave the Winter
3 outlook, we have a couple of macro economic changes: One,
4 the GDP growth has been lowered for the Winter, from 3.4
5 percent to about 3.3 percent, and manufacturing is lower,
6 from 2.9 to 2.7 percent, so that's demand coming off.

7 So we have supply coming up a little bit and
8 demand coming off. That's exactly what Mr. Harvey was
9 talking about; that's the market at work. You see supply
10 and demand adjusting for the hurricanes.

11 So, in short -- I know you have questions, but
12 I'll end this so we can hear the rest of the panel. In
13 short, even with some natural gas still offline this Winter,
14 as the recovery effort continues, we anticipate that a
15 variety of market alternatives and end-use conservation,
16 will help the market ensure reliable delivery of clean-
17 burning natural gas to customers this Winter.

18 On the conservation side, the Department of
19 Energy points out that a five-percent reduction in use, that
20 is five-percent conservation by residential and commercial
21 consumers, will roughly save 3.5 Bcf a day. That more than
22 compensates for what the hurricanes have caused.

23 Our numbers do not include the conservation in
24 there, so there are other things we can still do. With
25 that, I'll end and look forward to your questions.

1 MR. WRIGHT: Mr. Halphen?

2 MR. HALPHEN: Mr. Chairman, Commissioners, and
3 Staff, my name is David Halphen, and I am Vice President of
4 Regulatory Affairs and Administration for Enbridge Offshore
5 Gas Transmission.

6 Through our ownership, both individually and via
7 partnerships of six jurisdictional pipelines and associated
8 gas and oil gathering systems located in the Gulf of Mexico,
9 we transport roughly half of the natural gas produced from
10 the deepwater Gulf, delivering over 2.7 Bcf a day at pre-
11 hurricane levels.

12 Our offshore pipelines under the jurisdiction of
13 the Commission, consist of the Destin, Mississippi Canyon,
14 Nautilus, Garden Bank, Stingray, and UTOS systems.

15 I'm pleased to be here today to present to the
16 Commission, the experiences of Enbridge, as we have
17 responded to this very active hurricane season, and to
18 answer any questions that may arise.

19 Over the next several minutes, I will run through
20 a timeline of events and priorities as the hurricanes
21 approached, and a description of damage incurred on our
22 systems, including our planned remediation efforts.

23 My closing will include a discussion of what, if
24 anything, the Commission can do to help. By way of
25 background, it is important to remember that much of the gas

1 production in the Gulf of Mexico, is produced in association
2 with oil.

3 Also, significant volumes of condensate are
4 common and much of offshore gas production is rich in liquid
5 content and requires processing. The plants and liquid
6 pipelines, along with all terminals, storage facilities, and
7 refineries, are all susceptible to hurricane damage and to
8 extended power outages.

9 Any break in this chain can disrupt the flow of
10 natural gas. The following is a timeline that represents a
11 composite of our activities and reactions for both Hurricane
12 Rita and Katrina.

13 Beginning up to a week in advance of the storms,
14 evacuations of non-essential personnel from offshore
15 locations, began. Timing for full-scale evacuation of
16 offshore personnel, will be dependent on the size of the
17 storm, specifically, how far the outer bands extend.

18 Closer to landfall, our incident command system
19 is activated, we have automated systems, where practical and
20 available, control offshore production and gas flows. Local
21 safety systems protect the integrity of the pipeline, and
22 fail-safe systems are in place with emergency shutdown
23 devices that we'll activate as required.

24 As the storm moves across the Gulf, production
25 that has not yet been shut in, begins to fall off and shut

1 down completely. In the hours before landfall, the offshore
2 facilities were faced with the maximum force of the storms.

3 Floating drill rigs that were anchored to ride
4 out the storm, are shoved and pushed along like toys in a
5 bathtub. Anchors similar in size and weigh to an M-2 tank,
6 are drug along the sea floor, sometimes snagging on the oil
7 and gas pipelines.

8 We're still reviewing the GPS tracks of these
9 rigs and inspecting our pipelines for any damage. After the
10 storms have passed and once we are sure that our personnel
11 are safe and secure, we turn our focus to confirmation that
12 pipeline pressure has been maintained, and conduct visual
13 inspections of all surface facilities.

14 Initial assessments are made by fixed-wing planes
15 and by helicopters, as the winds die down, allowing flights.
16 Access to onshore facilities is often restricted until the
17 roads are reopened.

18 Remote-operated vehicles and side-scan sonar are
19 utilized to inspect our offshore underwater facilities and
20 the pipeline routes. All of our repair efforts are
21 prioritized for safety, environmental concerns, and facility
22 access, and then to expedite returning the pipeline to
23 service.

24 The following is a current overview of the status
25 and planned activities within each of the corridors that we

1 operate: In the Eastern Gulf, the Destin pipeline and
2 associated gathering systems, which are operated by BP, our
3 partner in these assets, survived the storms with very
4 little damage to the topside facilities.

5 The processing plant serving Destin shippers, was
6 unable to fully operate, however, due to loss of electrical
7 power at a downstream pumping station on the liquids
8 pipeline. While this power has since been restored, damage
9 to the oil pipeline infrastructure serving this corridor,
10 has curtailed gas that is produced in association with oil.
11 Repairs to allow full ramp-up to pre-storm levels, are
12 underway.

13 Our Mississippi Canyon system and related
14 facilities, received a direct hit from Hurricane Katrina.
15 This includes the onshore facilities located near the Dynegy
16 gas processing plant at Venice.

17 The environmental assessment and safety plans
18 have been completed and repair crews are onsite, beginning
19 work. Our outlook is for the Mississippi Canyon system to
20 be ready for service in November, however, the quantity of
21 gas flows will be dependent on producer repair plans
22 upstream of us, and processing considerations at the
23 downstream locations.

24 In the Green Canyon Corridor, our permanent
25 assets are the Cleopatra, Manta Ray, and Nautilus systems.

1 These pipelines sustained only minor damage, including some
2 damage to electrical generators, control tubing, and
3 electrical cabling on the Manta Ray platform.

4 The Manta Ray system was offline for ten days;
5 Nautilus was available for service on October 1st, but gas
6 flow did not commence until October 6th, due to producer and
7 processing issues. This corridor is now fully restored to
8 pre-hurricane levels.

9 Moving slightly West, we have the Garden Banks
10 Corridor, which incurred minimal damage to its platform,
11 with no consequence to service, which was restored on
12 October 1st, however, downstream interconnects have been
13 impacted, and transportation service is restricted to two of
14 the four delivery points on that system.

15 Finally, in the Western Gulf is our Stingray
16 Corridor, which received a fairly direct hit from Hurricane
17 Rita. It is in this area that our personnel were most
18 severely impacted.

19 Visual inspections have been completed, with
20 appearance of only minimal damage offshore. All major
21 laterals held pressure throughout the storm, but our onshore
22 facilities did not fare as well.

23 There is significant damage to equipment,
24 including instrumentation and control facilities, and also
25 to our office and warehouse buildings.

1 Meter buildings, including flow computers,
2 communication devices, and gas chromatographs, have all been
3 damaged or destroyed. A temporary work camp is currently
4 being mobilized to support the repair and recovery efforts.

5 While repairs and cleanup are underway, we have
6 not yet established an estimated date to resume service for
7 the UTOS and Stingray systems.

8 Overall, we have succeeded in restoring roughly
9 half of our gas flows to pre-storm levels. Throughout these
10 efforts, there are a number of things over which we exerted
11 a degree of control, and many more things beyond our control
12 or influence.

13 Our personnel, specialty repair tools, and other
14 inventory items that have been staged for recovery efforts,
15 and service providers that had been contracted for, are all
16 at our disposal, however, we are fully dependent on others
17 to reopen roads, waterways, and docks, and for the
18 restoration of electrical power.

19 While we work closely with the upstream and
20 downstream sectors, we are dependent on their services and
21 facilities, before we can fully return to pre-storm
22 throughput levels on our pipelines.

23 Finally, while there are a substantial number of
24 contractors and specialty service providers in the industry,
25 the occurrence of any significant storm in the Gulf, will

1 temporarily overwhelm this sector.

2 You have asked, what can FERC do? Certainly, the
3 waiver of federal, state, or local requirements in light of
4 the emergency situation, assist in the recovery effort. For
5 example, the MMS allowed flexibility in changes to current
6 permits relative to receipt and delivery points for gas and
7 liquid volumes.

8 Also, the Commission's waving of posting
9 requirements and other deadlines, was helpful. Looking out
10 at the longer term, the Commission may be in a position to
11 recommend some type of interagency protocol for sharing of
12 resources during disaster recovery efforts.

13 For example, multiple governmental agencies will
14 come in and secure many different resources, in order to
15 carry out their missions. To the extent that some of these
16 resources could be more urgently utilized by one of many
17 components of the energy industry, a protocol for that
18 process may be helpful.

19 Another long-term prospect would be the
20 encouragement of federal, state, and local cooperation in
21 protection measures for the Gulf Coast infrastructure. This
22 may include levies, road improvements, restoration of
23 marshlands, and incentives or recovery mechanism for
24 protection measures undertaken by the industry.

25 Unfortunately, there is no quick fix or easy

1 solution to ease the pain of the twin disasters that struck
2 our coast this Summer. The good news -- and, yes, there is
3 good news -- is that since 1900, on average, a Category 3 to
4 5 hurricane has only impacted the upper Gulf Coast, once
5 every three years.

6 Only during 2004 and 2005, did more than one
7 hurricane impact the upper Gulf Coast in the same year.
8 From a historical perspective, 2005 is not a normal year.

9 In some areas, preliminary estimates were that
10 restoration of power would take months, however, more recent
11 estimates are that that power could be restored in weeks.
12 Every day, progress is being made, due to the efforts of a
13 very dedicated and hardworking group of individuals across
14 the entire Gulf Coast region.

15 The energy industry is strong and resilient, and
16 will fully recover from these storms. When you ask,
17 hopefully we've provided some answers here today.

18 While some situations are not clearly defined, it
19 is safe to say that everyone is rowing in the same
20 direction. Thank you again for this opportunity to share
21 our story with you, and I look forward to receiving any
22 questions at the end of the presentations.

23 MR. WRIGHT: Ms. Wyrsh?

24 MS. WYRSCH: Thank you, Jeff, and good morning.
25 I'm Martha Wyrsh. I'm President and CEO of Duke Energy Gas

1 Transmission.

2 We operate more than 17,500 miles of natural gas
3 transmission pipelines from Texas to New England. We own an
4 interest in the Maritimes and Northeast Pipeline, which
5 brings natural gas from Canada to serve New England, and the
6 Gulfstream Pipeline, which serves the expanding Florida
7 markets.

8 We also own and operate two significant
9 businesses in Canada, a natural gas gathering, processing,
10 and transportation business in British Columbia and Alberta,
11 and Union Gas, a local distribution company in Ontario.

12 We also own and operate approximately 250 billion
13 cubic feet of natural gas storage capacity.

14 Hurricanes Rita and Katrina have had a
15 significant impact on the complex webs of gathering lines,
16 processing plants, pipelines, and local distribution assets
17 in North America.

18 At the heart of our web of the natural gas
19 infrastructure, is a team of people who are dedicated to
20 delivering natural gas every day. It's impossible to
21 quantify the human pain and suffering that these twin storms
22 have inflicted on these people, including the people who run
23 our natural gas systems.

24 So, before I begin discussing the impacts that
25 Katrina and Rita have had on our supply and on our

1 facilities, I wanted to take a moment to commend the
2 resiliency and the resourcefulness of the people who are
3 working around the clock to get the natural gas system back
4 up and running.

5 I'm especially proud of my colleagues at Duke
6 Energy Gas Transmission. I have spent quite a bit of time
7 now in the Gulf over these last several weeks, visiting with
8 our employees in areas that are hard-hit by both hurricanes.

9 These employees have put aside their personal
10 needs, they've put aside the needs of their families;
11 they're focused and committed on getting natural gas systems
12 back up and running, and to get business back to usual. I
13 applaud their courage and their dedication.

14 You know, the impacts of Katrina and Rita as they
15 crossed directly over the major zones of natural gas
16 production, processing, and transportation, have been felt
17 far and wide across the Duke marketplace, spreading wider
18 than the geographical areas of their passage, and I wanted
19 to share just a few examples of that ripple effect.

20 In our markets off of the Gulfstream Pipeline in
21 Florida, we saw generating advisories issued in an effort
22 re-balance supply and demand, because Florida was impacted
23 by supply crunches in fuel oil, coal, and natural gas.

24 In southeast New Mexico, as Rita drew near, we
25 saw gathering and processing facilities shut in, because

1 refineries and fractionators along the Gulf Coast, were
2 being evacuated. That resulted in a lack of natural gas
3 liquids take-away capacity.

4 And up in Ontario, the regulators of Union Gas
5 and other distribution companies, are calling on utilities
6 to demonstrate their readiness for tight supply access,
7 should we see a difficult Winter. This is a North American
8 problem.

9 Let me try to describe some of the destruction
10 that we're now coping with in the Gulf Coast region. The
11 MMS has told us that over 3,050 of the 4,000 platforms in
12 the offshore, were in the path of those storms.

13 Almost all gas pipelines and processing
14 facilities in south Louisiana were impacted by one or both
15 of the hurricanes, and we know that right now, about 64
16 percent of the production from the Gulf is shut in.

17 That's a big-picture overview, but I'd like to
18 take a minute to talk about Texas Eastern and Duke Energy
19 Gas Transmission, so you have a sense of what our pipelines
20 have been faced with, and I'll start with Katrina:

21 While Texas Eastern's systems suffered relatively
22 minor damage, most of it was wind damage. Much of the
23 infrastructure that we rely upon to get our gas into
24 pipelines, was hard-hit. In particular, Dynegy's Venice
25 processing plant was flooded by Katrina and then re-flooded

1 by Rita, and that remains out of service.

2 All of our volumes on systems upstream of Venice
3 that require processing, are still shut in, although we are
4 told that production from offshore platforms along the South
5 Pass Pipeline, are nearly ready to flow.

6 We very much appreciate the quick action that the
7 Commission took yesterday on the Discovery plant
8 application. That will enable us to move gas that would
9 normally flow through the Venice plant, and we'll be able to
10 process it and flow it onto Texas Eastern. That will be a
11 help to us.

12 Prior to Rita, the rest of our Texas Eastern
13 system was operating normally, and as we saw Rita coming and
14 we took note of the Category 5 status and the possible path
15 of destruction, we moved to protect our people and the
16 integrity of our systems and facilities. Most of our
17 compressor stations in Texas and Louisiana, are manned
18 locations, and they had to be shut in before the storm, due
19 to mandatory evacuations.

20 Although the impact of Rita on the industry was
21 substantial, Duke was, again, fortunate, as we compare
22 ourselves to many of our colleagues in the industry. Our
23 facilities came through with relatively little damage.

24 We had two compressor stations that were flooded,
25 but we are able to operate our system without those

1 compressor stations at this time, and they will be back up
2 and running in the next couple of weeks, but, again,
3 throughput is down substantially.

4 Gas processing was, again, impacted by Rita. Two
5 of the three key processing plants in the Gulf region that
6 we utilize, were impacted by Rita, but with the exception of
7 the Venice plant, all will be available within the next few
8 weeks, and, of course, we found an alternative now to the
9 Venice situation.

10 We have seen some supply come back on as well.
11 As of October 10th, supply onto the Texas Eastern system was
12 off by about 500 Mcf a day, and that was primarily offshore
13 production.

14 I wanted to put this into context for you,
15 because having half a Bcf a day of production off, is
16 certainly far better than the 1.1 percent that we had off
17 when Rita hit. But it is important to recognize, as you
18 listen to these statistics, that half a Bcf a day accounts
19 for approximately 12 percent of Texas Eastern's total
20 deliveries into the market on peak delivery days.

21 Twelve percent may sound like a small amount, but
22 it equates to half a Bcf of gas that will not be available
23 in the market on a peak day. Market area storage will be
24 used already to 100 percent, and so market area storage will
25 not be able to make up for that loss of flowing gas.

1 So we understand what Skip and NGSA are telling
2 us, but I will tell you that we worry about the flowing gas
3 coming into the market, because it's a component of peak-day
4 deliveries that's very important and cannot be made up by a
5 supply coming out of storage.

6 The speed with which shut-in production comes
7 back online, will be significant for the upcoming Winter.
8 Duke Energy Gas Transmission has taken some additional steps
9 to ensure that we see more supply in the system. We
10 discounted transport on our Lebanon lateral by 50 percent,
11 to bring mid-continent supply into the market.

12 We have been working with producers to blend gas,
13 where that is possible, to the extent that we can do so and
14 still have pipeline-quality gas. We've also waived excess
15 storage fees to get as much gas into storage as possible.

16 And there is good news on the storage front.
17 Storage inventories, both in market and supply areas, look
18 fairly healthy. Our Dawn Storage Field, which holds 150 Bcf
19 and provides market area storage both for Ontario and the
20 Northeast U.S., is 90-percent full right now, compared to 88
21 percent in 2004 at this time of the year.

22 We have seen an interesting dynamic in storage,
23 however, that I think is worth mentioning. As Rita
24 approached, Duke saw a significant pull from our supply
25 storage fields. The supply area was the pull for customers

1 who worked to fill their market area storage.
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1 The good news is that our production area, Salt
2 Caverns, can refill within 30 days. We do need production
3 in that supply area that can help us fill that Salt Cavern
4 storage in order to meet the peak winter demands.

5 I thought I would take a minute to talk about
6 price, from one specific perspective. With current prices
7 at near \$14, the market has really quantified for us the
8 anxiety they see and that they feel and which exists about
9 our ability to meet current demand with the supply chain
10 that's been impacted by Katrina and Rita. This environment
11 of high prices and potentially tight supplies will cause
12 Texas Eastern to be very proactive in monitoring and
13 managing its system imbalances throughout this winter to
14 prevent the loss of line pack in order to ensure that we can
15 make market deliveries during that winter season.

16 To maintain this balance, Texas Eastern will
17 issue operational flow orders as necessary. However, our
18 current OFO penalty is capped at \$25. At a high price of
19 \$14 and tight demand, we do not believe that will be a
20 deterrent. As a consequence, we will be seeking a change in
21 our penalty tariff provisions.

22 As an industry, we are interconnected and
23 inextricably bound to one another. To minimize the adverse
24 impacts of the hurricanes, we need to coordinate our
25 efforts. We need to prioritize work so that all segments of

1 the industry, producers, processors, and transporters, are
2 working together to get natural gas flowing at the earliest
3 possible date.

4 This is where we need the help of the FERC. From
5 our perspective, this is not the time for us to be
6 conducting our business on the electronic bulletin board.
7 Now is the time for person to person communications. FERC's
8 easing of the posting requirements during the height of the
9 emergency was very helpful.

10 We are mindful and respectful of the need to
11 ensure that information that is shared with one party be
12 shared with all. But in times like these, it would be
13 helpful for critical conversations to occur between
14 producers, pipelines, processors and customers in a level of
15 detail that is needed to ensure that we can meet the quick
16 recovery without people worrying about whether or not each
17 piece of information needs to be reported on the EBB.

18 Order 2004 has caused the industry at times to be
19 paralyzed and people who work day to day in our industry
20 worry about whether or not they will be suffering severe
21 penalties because of an inadvertent failure to post on the
22 electronic bulletin board. When we have an emergency like
23 we're facing today, we would appreciate the opportunity to
24 work with the FERC to ease those kinds of requirements to
25 ensure good information is passing quickly. Duke and other

1 INGAA members are more than happy to discuss affirmative
2 steps we think the Commission can take to address this
3 problem.

4 In conclusion, I've had several people ask me
5 what I'm wishing for this winter, and these are probably
6 some things you wouldn't expect to hear from a natural gas
7 industry executive. But I'm wishing for a mild October and
8 mild November so we can get storage completely filled and
9 can avoid drawing on it until the heart of the winter
10 season.

11 I'm wishing for quick completion of repairs to
12 the electric transmission grid so that we can get the
13 infrastructure back up and running on the Gulf.

14 I'm wishing for quick completion of repairs on
15 those production and processing facilities that have been
16 directly hit by the storms, so that more pipeline quality
17 gas is flowing from the Gulf by December 1st.

18 And I'm wishing that all of you who live on the
19 East Coast are playing golf on Thanksgiving Day.

20 (Laughter.)

21 MR. WRIGHT: Thank you, Ms. Wyrsh.

22 Mr. Manning.

23 MR. MANNING: Thank you very much, Chairman,
24 Commissioners, and Staff. I am here on behalf of the
25 American Gas Association and Keyspan. I've had some

1 invitations from Commissioners to address my comments
2 specifically to the Northeast. I'll try and do that. But
3 may I open just on behalf of the burner tip and the 56
4 million customers represented by AGA members to thank the
5 upstream infrastructure, the individuals and the
6 corporations who are still and have been responding so
7 dramatically to address the events of the last six weeks.
8 That should be said by us.

9 I'd also like to take credit for the American Gas
10 Foundation report which seven months ago cautioned that in
11 the 2020 outlook we could see \$13 gas by 2020.

12 (Laughter.)

13 MR. MANNING: A look into the future: we are the
14 interface with the customer. I think if there's one message
15 I have to have here, it is that we are the ones, the AGA
16 members, who have that interface who are in fact primarily
17 focused on mitigation for our customer base. Keyspan has
18 close to 3 million gas customers who are also the largest
19 investor-owned power generator in New York state and, of
20 course, we obviously have a number of gas facilities. So
21 our focus is on mitigation both of price and price
22 volatility, its communication to facilitate infrastructure
23 and communication to assist the customer base to respond to
24 the next four or five months. It's also infrastructure.

25 In that mitigation, however, I would speak

1 specifically to Keyspan but I'm speaking on behalf of our
2 industry. Storage is absolutely critical. Fortunately,
3 Keyspan for the Northeast, we're ahead of plan: at the end
4 of August we will be full in terms of our storage needs by
5 November 1st. We're on track to do that. We are curtailed
6 currently, but we are confident that we'll have full
7 storage. We have about 104 Bcf of storage, about 20 percent
8 of that is in the supply region. We did lose communication
9 with that facility, but it's been fully operational
10 throughout, and we have not sustained damage. We have
11 adjusted our on-system sales from that facility to plan
12 contingency planning going forward.

13 We also, of course, are the largest users and
14 distributors of LNG domestically in North America and
15 candidly are quite LNG-dependent in New England, as you
16 know. I think that mitigation storage is clearly part of
17 our strategy, but I also think infrastructure is important.
18 To that end, we have been working with state utility
19 commissioners to facilitate and to encourage long-term
20 contracts for new infrastructure. I've had many of those
21 conversations myself. We've been making that case now.
22 We've made some real headway on that, I believe.

23 Keyspan also were the first shippers from Canada
24 in 1980 on the Boundary project of any volume. We're the
25 only LDC shipper on the intertie Northeast pipeline. We

1 have an equity position in Iroquois. We have an equity
2 position in Islander East, an equity position in Millennium,
3 which, as you know, is critical to connect the Northeast to
4 the storage fields of Dawn. So I think it's important to
5 know that many members of the LDC industry are stepping up
6 also in terms of managing and owning storage. These are all
7 mitigation strategies.

8 If I can turn specifically to some of the
9 questions the Commission has raised about New England. We
10 do have an issue with respect to generation, Commissioner,
11 in New England. We, of course, as the distribution company,
12 do have some firm facilities for firm supply in Keyspan.
13 It's not a curtailment issue, it's an interruptible
14 transportation issue. We do have a curtailment program. We
15 obviously have rate incentives for large industrials and our
16 larger customers and it functions well. That's all in place
17 and all presided over, of course, by state regulators
18 throughout our territory.

19 To our knowledge, however, many of the large
20 generating facilities that the ISO addresses have not taken
21 the firm transportation on the transmission system which, as
22 you know, can be constrained into the Northeast. To say
23 that we don't anticipate any challenges this winter would be
24 inaccurate. We, of course, as a generator, have taken firm
25 supply for many of our needs in the New York region. We

1 have encouraged generators to do that. And we also, of
2 course, had a major communication challenge on our hands
3 that the time that you referred to point out that in fact
4 the gas industry was willing to provide firm transportation.
5 So I think that should be on the record.

6 Is there a level of confidence? I can't speak
7 for those generators, but Keyspan cannot speak with
8 confidence that others have got that firm transportation
9 arranged. As I indicated, supply diversity is critically
10 important to this region. About 20 percent of our needs
11 come from Canada in New England or throughout our territory.
12 That's an average number, of course.

13 We also, of course, have shipments coming from
14 not only western Canada but eastern Canada. And, of course,
15 LNG we have ramped up our efforts with respect to LNG.
16 We're in discussions obviously on a daily basis. We've also
17 applied some supplies in other facilities that we have not
18 done historically. So we have taken steps.

19 We're also, just ballpark, roughly we're about a
20 third in storage, about a third committed and our hedging
21 strategy is 18 months in advance. So we've got real price
22 mitigation for our customers in the region. And all of
23 that, of course, contributes to both supply stability and
24 volatility. That's what we're trying to address. And then
25 about a third we're in the market and we are addressing that

1 on a daily basis.

2 As I indicated, we do continuous contingency
3 planning. I'd like to support the comments of my friend
4 about our ability to communicate. As a very large
5 distributor of natural gas, the opportunity and ability to
6 communicate fully for contingency planning purposes only is
7 very important to us as we head into the next four or five
8 months. Anything FERC can do to address that would be
9 appreciated by all of us I think in the supply chain.

10 Gas quality was also raised. We are seeing a lot
11 more nitrogen already hitting. We have been at the table --

12 AGA and Keyspan have been at the table with professionals
13 for the last two years working very hard on this issue,
14 because obviously we want to facilitate additional supply.
15 We also want to facilitate additional supply which is fully
16 usable at the burner tip.

17 I think there is an opportunity for the federal
18 government to assist us with some research. There are still
19 questions out there -- with respect to the generation
20 sector, there are still questions out there that must be
21 researched with respect to the transportation sector. Our
22 concerns for this season are not the appliance market or the
23 appliances that we're normally concerned with, it's more in
24 peak shaving, it's more on the generation side. I think
25 we've committed ourselves to this process, but I also have

1 to caution you that I don't think we're there yet, and I
2 think that, of course, given the loss of facilities in the
3 Gulf focuses that.

4 Turning back to the Gulf for just a moment, I
5 think we are concerned and have been concerned, both as a
6 trade association and as a company, with the overdependence
7 on Gulf supply. That goes right back to the efforts -- you
8 know my background. It all started because there was a lack
9 of enthusiasm in the U.S. south for new infrastructure to
10 the Northeast. Our chairman, Bob Cottell, started Boundary,
11 started Iroquois, went to Canada, you know the story. Thank
12 God, because we do have supply diversity, which is very
13 critical to us this year. LNG, of course, is a component of
14 that.

15 I think if I could summarize -- because I'm
16 hoping that we can turn to questions soon -- our strategy is
17 obviously storage, maximizing storage. We recycle our LNG
18 storage. We have about 14 facilities on-system. They cycle
19 throughout the winter and are critical to that.

20 In addition, as I indicated, we have about 104
21 Bcf in the ground, 20 percent of which is in Louisiana; the
22 balance is in Pennsylvania and New York. It will be full
23 November the 1st. We do have firm contracts. We have a
24 very aggressive hedging strategy so that our price impact
25 will be much lower than it could have been.

1 There is an overdependence on the Gulf both with
2 respect to our events of the last two months but also just
3 getting infrastructure in the ground in the Northeast is
4 very difficult, particularly across the Hudson River, and
5 getting it to the market area.

6 So there is clearly work to be done. Our efforts
7 have been focused on mitigation, communication with our
8 customers. We are teaching our customers about two new food
9 groups: both energy conservation and efficiency. We are
10 working with governments at all levels to provide that kind
11 of information. Some of our regions have incentives to
12 reduce the use of gas. That's our part to assist the
13 customer.

14 Thank you very much.

15 MR. WRIGHT: Thank you, Mr. Manning.

16 Mr. DeVille?

17 MR. DE VILLE: Good morning. My name is Patrick
18 DeVile, the vice-president of marketing for ENSTOR. I want
19 to start out by thanking the Commission for the opportunity
20 to participate in this important conference and to share
21 ENSTOR's perspective on how Hurricanes Katrina and Rita have
22 affected natural gas storage facilities and anticipated
23 inventory levels during the coming winter and beyond.

24 ENSTOR is Houston-based independent storage
25 company owned by Scottish Power. Unlike the others in the

1 storage sector who take title to gas inventory, our business
2 model is based on the idea of creating a hub by offering
3 services that facilitate natural gas trading and generate
4 liquidity for the natural gas market as a whole.

5 ENSTOR owns and operates the 21 Bcf Katy storage
6 facility west of Houston. Katy is interconnected to nine
7 Texas intrastate and four interstate pipelines. All of the
8 interstate pipelines that Katy is interconnected with were
9 affected by Hurricanes Katrina and Rita. Despite the damage
10 done to the offshore production facilities and pipelines in
11 south Louisiana, there's no lasting damage done to any
12 storage facilities and there appears to be little impact on
13 customer's ability to fill those storage inventories for the
14 upcoming winter to normal or slightly above normal levels.
15 For instance, at Katy we expect to be at the highest
16 inventory level that the facility has experienced in the
17 last 10-plus years. In our view, the national inventory
18 level will be 3.2 Tcf by the time we're finished.

19 In our view, this is attributable for several
20 reasons. First, the nation retained larger than normal
21 amounts of storage inventory at the end of last winter and
22 levels of injection earlier this summer were typical for
23 that time of year. In addition, the current structure of
24 the forward price curve on the NYMEX is still giving
25 economic incentive to holders of storage capacity to

1 continue injecting even through the month of November.
2 That's pretty unusual. Normally we're thinking about
3 withdrawing at that point.

4 The current price curve is also providing
5 incentives to storage inventory holders to deplete their
6 inventories to historically low levels by the end of this
7 winter. What I mean by that is March values are \$3 above
8 April; there's an awful lot of incentive to get everything
9 out and refill at \$3 lower levels. In effect, we'll have
10 large amounts of storage inventory that will be drawn upon
11 heavily during the four months between December 2005 and
12 March 2006, due primarily to economic incentives to do so.
13 Therefore, I'm pleased to report to you that natural gas
14 storage inventory will be at the same level as normal going
15 into this winter and will be largely unaffected by the
16 damage done from the hurricanes.

17 However, a bit of caution is in order. This will
18 not be the case if we have natural disasters of the same
19 magnitude next year or beyond. Had storage inventories been
20 near empty at the beginning of this year, the destruction of
21 these hurricanes would certainly have created greater price
22 volatility and fewer supplies during the upcoming winter.
23 From a storage perspective only we've dodged a bullet.
24 However, important policy lessons can and should be drawn
25 from the experience of these hurricanes if we hope to avert

1 more serious price and system disruptions when a comparable
2 disaster strikes again, as it surely will.

3 First, we should expect increasing volatility as
4 demand growth outpaces growth in domestic supply. LNG will
5 indeed fill the gap to some degree, yet the timing of LNG
6 shipments is uncertain as those supplies compete on a
7 worldwide basis. As LNG imports enter the U.S. supply
8 stream, this will only enhance the need to optimize natural
9 gas storage to take in the massive amounts of gas that must
10 be quickly discharged from these cargoes, as well as
11 maintain a steady supply to the market when expected LNG
12 shipments are diverted to other markets.

13 This, coupled with the volatility that is
14 experienced as a result of the devastation wrought by the
15 hurricanes, underscores the need for additional flexible
16 storage services in the U.S. market. These flexible storage
17 services can be brought about by greenfield development. It
18 can also be brought about more quickly and at little cost if
19 the Commission adopts, as we have long maintained, certain
20 supportive regulatory policies to ease their introduction.

21 Independent storage developers and operators will
22 be the driving force to build additional storage facilities
23 in our nation. However, these independents are unable to
24 offer storage services to the market that are competitive
25 with pipelines or marketers due to the restrictions of the

1 shipper must have title rule.

2 At the storage conference last year, ENSTOR
3 proposed that FERC waive the shipper must have title rule
4 for all independent storage operators for the purpose of
5 extending the independent owned storage capability
6 downstream to the market utilizing firm transportation held
7 by that independent. Title to storage inventory transported
8 would be retained by the customer who originally injected
9 that inventory. Therefore, a waiver of the shipper must
10 have title rule will be necessary for independents like
11 ENSTOR to offer a delivered storage service under the
12 current regulatory structure. These services would have
13 allowed customers greater flexibility to manage volatility
14 in the consuming areas, as has been referred to by some of
15 the other speakers.

16 In addition, we encouraged the Commission to
17 continue granting market-based rates to new storage
18 facilities that are brought online. We'd further encourage
19 the Commission to utilize it's recent Energy Policy Act
20 authorization to grant market-based rates to facilities that
21 would not meet the current test for market power in
22 precisely those areas where storage services are needed
23 most. This will provide the necessary incentive to
24 independents to take the risk of developing these new
25 facilities.

1 Fortunately, we will not feel the effects of
2 Hurricanes Katrina and Rita on gas storage this winter in
3 terms of having less storage inventory available. However,
4 these disasters have served as a warning that more storage
5 infrastructure is needed in the production and market areas
6 to ensure that necessary supplies are available to the
7 market. This can be accomplished quickly and inexpensively
8 through FERCs adoption of creative regulatory policies that
9 will allow all independents to provide competitive and
10 flexible delivered storage services, as well as granting
11 market-based rates to new storage facilities that will be
12 built in the future.

13 Thank you for the chance to contribute our
14 perspective. ENSTOR certainly would welcome the opportunity
15 to continue to work with the Commission in helping to
16 formulate the policies needed to spur additional investment
17 in beneficial gas storage and related services so the U.S.
18 can prudently manage its natural gas system and its growing
19 reliance on foreign supply. I look forward to your
20 questions.

21 MR. WRIGHT: Thank you, Mr. DeVille.

22 We'll turn now to the Chairman and Commissioners
23 for the questions they may have of the panelists.

24 CHAIRMAN KELLIHER: I have some questions for Mr.
25 Manning. One reason -- the initial purpose of this

1 conference was really to have a little more long-term look
2 at natural gas infrastructure. When Hurricanes Katrina and
3 Rita changed that, we decided to add this discussion and
4 really look at the effect of the damage the hurricanes
5 caused on the infrastructure to prices this winter.

6 From your point of view, what advice would you
7 give the residential consumer right now? The price signal
8 follows consumption typically. They get a bill at the end
9 of the month, not at the beginning of the month. They don't
10 necessarily know what prices will be. One reason we wanted
11 to have this discussion today is to reassure consumers -- or
12 make sure they know there is some bad news, prices will be
13 higher this winter. But when you look at your conservation
14 programs, which ones have proven to be the most effective?
15 What advice would you give the residential consumer? What
16 can they do to lower their gas bill this winter?

17 MR. MANNING: Thank you, Chairman. First of all,
18 there are many opportunities to communicate with our
19 consumers from the media. Not a day goes by when we're not
20 being given yet another opportunity to speak on this issue.
21 And we take those opportunities at every turn.

22 We also, of course, are communicating to our
23 consumers through all of our various channels such as the
24 bill-stuffers such as paid media. We're launching an
25 advertising campaign next week which will in fact talk about

1 conservation, what we have done to mitigate and what their
2 opportunities are. We have lots of conservation
3 opportunities within our website. We also drive into the
4 federal government website within our advertising. We're
5 doing everything we can in that respect.

6 We also incent our call centers to drive people
7 onto the balanced bill. We have programs, of course -- we
8 can levelize your payments throughout the year. We've had
9 good success with that program; that's helpful. We work
10 very, very hard -- we're just building a program now to try
11 and assist the customer base who have not signed up for
12 LIHEEP to give them assistance in terms of figuring out how
13 to do that. Many AGA members in the past have also
14 contributed to programs that LIHEEP funds. So shareholder
15 dollars have also gone in there.

16 We also do outreach to our own customer base
17 asking them for that kind of assistance. In terms of the
18 education of the consumer, we continue to caution them. We
19 do indicate that the price will be dependent, number one, on
20 the weather, of course, and, number two, on the speed of
21 recovery of the facilities that have been addressed today,
22 so that we can't give them an absolute number. They are
23 very much aware of the numbers that have come out which,
24 unfortunately, may well relate to specific regions of the
25 country, not ours.

1 Our difficulty is to say because of our hedging
2 efforts the impact may be less for our customers but it will
3 be very real relative to past years. Also, of course, there
4 is an issue about the degree days of the past couple of
5 seasons. Some who had a very unusually warm experience the
6 last couple of years in the country will have a very
7 different impact if they have a very cold winter.

8 So that's part of the issue we have. The media
9 continues to want to nail us down to a dollar amount, but we
10 continue to caution. But we also take every opportunity
11 point out that there are steps that the consumer can take
12 right now.

13 We do not believe that we will have a supply
14 problem. But having said that, we have contingency planning
15 going on daily. Our focus has been on price mitigation and
16 price volatility, mitigation.

17 We do have in some parts of our territory some
18 very good incentive programs which have been hugely
19 successful. And then, of course, there's high efficiency
20 boilers and burners, automatic thermostats, if you do a
21 number of things to your home. In New England there's a
22 \$750 incentive opportunity for the homeowner who makes those
23 investments, EnergyStar windows and appliances. We not only
24 communicate those opportunities, but we also have actual DTE
25 approved programs in place which we're anxious to move to

1 the rest of our region.

2 CHAIRMAN KELLIHER: Thank you.

3 A number of the panelists have made the point
4 that one piece of good news is that we have higher than
5 average amounts of gas in storage right now that will
6 mitigate to some extent the price effects of Hurricanes
7 Katrina and Rita. Mr. DeVille encouraged us to act actually
8 and reform our pricing policies to increase gas storage
9 capacity. I certainly share that goal; it's one of the
10 goals I announced my first day as Chairman. I think my
11 colleagues agree and we will act in the near future to take
12 the first steps in that direction.

13 I had one other question and I wish I could
14 remember it.

15 (Laughter.)

16 CHAIRMAN KELLIHER: Why don't I turn to my
17 colleagues? Maybe it will return to me. Thank you.

18 COMMISSIONER BROWNELL: You're the Chairman, so
19 any time it comes back, give me the hook.

20 Martha, a couple of questions. Could you say
21 more about the issue of OFO penalties, a topic about which
22 I'm miserably ignorant. Is that a problem for you? Is that
23 kind of an industry-wide problem? Because at a certain
24 point, you're right, paying the penalty is probably
25 worthwhile.

1 MS. WYRSCH: If we see a tight winter, it will be
2 a problem across the industry. If we see all the pipelines
3 needing to ensure that the line pack stays as full as it
4 needs to to have optimal throughput on the pipeline system
5 and, as a result, we will have to be very careful in
6 managing our tariff to exactly the specifics that are in
7 that tariff rather than the flexibility that we've been able
8 to allow in past years, as a result, these penalties will be
9 important. Because we need some incentive for people not to
10 take gas that is not allowed under the tariff. \$25 -- what
11 we have is a \$25 cap right now in the tariff provision. We
12 need to look at that and ask for that to be removed.

13 COMMISSIONER BROWNELL: Maybe we can expect INGAA
14 to make sure that its members understand perhaps if they
15 need similar changes, everybody needs to get in quickly.

16 MS. WYRSCH: I guess we'll work with Don on that.

17 COMMISSIONER BROWNELL: I see him taking notes
18 over there.

19 (Laughter.)

20 COMMISSIONER BROWNELL: Martha, I see you're
21 taking notes and David commented on it as well, but Martha
22 you brought up the issue of 2004. It's not the first time
23 it's been brought up. Could you be a little more specific,
24 do we need to make changes? Are these short-term waivers --
25 what do we need to do about this?

1 MS. WYRSCH: I think if the Commission could look
2 at an emergency situation like the one we're faced with and
3 allow a waiver, that would address only those conversations
4 that are between customers with existing contracts and the
5 service provider. We need to be able to allow those
6 customers to make up that gas. It's not going to get it
7 from the production area where they originally expected it.
8 They need to know that and they need to then start working
9 on other strategies.

10 The concern we've had that's been articulated to
11 us -- this is not only a Duke concern, by the way, this has
12 been a topic of discussion at INGAA -- is that the kind of
13 posting requirements that we have today force people into
14 potentially sharing proprietary information about one
15 specific LDC and the situation they're currently in.

16 That's a concern for the LDCs, because they don't
17 necessarily have an interest in having their supply mix
18 understood by everyone. You also have critical information
19 about the availability of compressors and other equipment,
20 for instance.

21 We've heard concern about can we share that kind
22 of information. We know what we have. We know how we can
23 get those barges in place quickly, all of those kinds of
24 things. But because it's very specific data that would not
25 necessarily be appropriate to be posted, it's information

1 that people are very uncomfortable talking about because of
2 the breadth of Order 2004 and the way it's being
3 administered.

4 MR. MANNING: If I can echo, our situation of
5 course is contingency planning, so really it's very focused.
6 As Martha said, it's a very focused need as we head into
7 this period of time, this defined period. Given the high
8 volumes and events of the last two months, we need to have
9 the best possible working relationship with the chain, the
10 supply chain, in order for us to make these contingent plans
11 heading in. That's given the variables of the weather,
12 given the variables of the supplies.

13 MS. WYRSCH: One thing I might mention in
14 addition is as we look at the enforcement of the Energy
15 Policy Act and the penalty provisions that were included
16 there, it will be helpful as we work with the FERC to put in
17 place due process kinds of provisions so there's a clear
18 understanding of how those penalties will be imposed and
19 there's a sense of fairness around that, rather than the
20 open kind of nature of the way it's stated in the Energy
21 Policy Act. We've spoken with you before about that and I
22 know you've been hearing about this issue, but it is of
23 concern to us in the industry.

24 COMMISSIONER KELLY: We have every intention of
25 doing that. But in the meantime, I certainly would welcome

1 a petition from you for any waiver that you need from the
2 standards of conduct. Obviously, we implemented those
3 provisions in order to prohibit anti-competitive activity
4 and that's important. And we also need to ensure to the
5 public that there is not market manipulation going on or
6 anti-competitive activity.

7 On the other hand, it's imperative that the
8 infrastructure be brought on as quickly as possible. And
9 it's also imperative -- I was trying to make this point
10 earlier today -- that the public know what the status of the
11 infrastructure repair is. The public can respond to a
12 situation that they know is going to happen. They will
13 engage in demand response if it's necessary. But if they
14 don't know, they can't respond.

15 That brings me to speed of recovery of
16 facilities. You have all talked about your expectation that
17 the supply will be into the chain by winter. But obviously
18 you don't know for sure. Can you tell us how the public
19 will know, and can you bracket the uncertainty: how will
20 the public know early enough to plan for supply or possible
21 supply disruptions? Is the work being prioritized? Is the
22 information publicly available as to what's happening with
23 repairs? And should it be and what's the possibility that
24 the repairs won't be made?

25 MR. HORVATH: I'll start. NGSa and its members

1 publicize on a pretty much daily basis any publicly
2 available changes or improvements to gas coming on-stream.
3 And every few hours, in fact, we search all the websites and
4 compile it. We've been sending it all to the Commission and
5 we've been putting it out to parts of the industry. Ever
6 since the winter outlook, we've had a lot of media interest
7 in natural gas for this winter, and we know the American
8 public is fully aware of this winter and the expectation of
9 higher energy prices, including natural gas. So we're
10 convinced that they're educated in that sense, now they're
11 informed and are sort of watching for it.

12 As far as how will they know if there will be a
13 supply disruption, again, we don't think a supply disruption
14 is in any of the scenarios we're looking at. Can you
15 concoct one? Sure. You can always concoct, especially
16 after 9/11, a disaster scenario. Then is when you have to
17 all get together, as we have done in the past, work with
18 each other and with the Commission to inform us as best as
19 possible. As Mr. Chairman has set up a terrific
20 communication with the industry, with the Staff, and we will
21 use that and inform FERC and we will get the message out as
22 fast as we can.

23 MS. WYRSCH: I think one thing I would say is
24 that the disruptions will come in a very localized way. It
25 won't be a broad-based disruption. So what we're doing, for

1 example, is as we see specific facilities come online, as we
2 start to see opportunities, we're being very strategic in
3 choosing which are the most important and focusing on those
4 first.

5 And processing for Duke Energy was the key and
6 also looking for alternatives and assisting with the Venice
7 rebuild. Both have been high priorities for us. We've sent
8 boats in, people, helicopters and everything we can to help
9 Venice start to get back up. In the meantime, we've been
10 working very carefully to see what we can do as an
11 alternative to get that 500 that would normally flow through
12 Venice flowing.

13 And as we do that, we work closely with the
14 customers. We do post this information so you can see very
15 constant daily postings from Duke about specific changes
16 that we think are important to the marketplace. That's how
17 we're doing it. Because really the communication to the
18 broad public needs to come through the person they would
19 expect, the Keyspans or other LDCs, for example.

20 MR. MANNING: If I could speak to that very
21 briefly. The opportunity that is now presented, I do
22 believe energy is much more -- the awareness level of energy
23 issues is much more. We can thank transportation fuels for
24 that, but there is a much greater awareness now.

25 Then if I can turn back, I didn't fully answer

1 the question Commissioner Brownell raised in the first
2 panel. The difficulty in creating infrastructure,
3 particularly on the LNG side -- I think the marketplace got
4 ahead of the education function. And this is a failing, I
5 think, of the industry, I think it's a failing of a lot of
6 us. We didn't properly tell people what this was about.

7 It's interesting, though, that the opposition to
8 these projects is not at the grass roots level. You do see
9 organized resistance. You do see opportunities in the
10 political leadership, which of course we have facilitated
11 which we're not thrilled about. But the overwhelming public
12 response when we do our testing tells a different story.
13 There is, in fact, a sensitivity to the need for energy and
14 I think it tells a different story.

15 I do think, however, that it's a matter of who
16 the public will believe and we're in a very difficult
17 position. Even though we are much more a distributor than a
18 developer, and we've developed because we need the
19 distribution supply. That's our mantra. That's our core
20 business. The federal government has a very real role, not
21 only as regulator but also I believe as trusted voice and as
22 regulator and as educator, to some extent. And there's
23 various arms of government that can do that, not the least
24 of which of course is the Coast Guard. But I do think if
25 we're going to get through this, we do need more assistance

1 in that public education and public understanding.

2 COMMISSIONER BROWNELL: Fortunately I think the
3 Energy Bill calls for us to have hearings with DOE -- or DOE
4 to have hearings, and we can come around the country to talk
5 about that. You're right. I think that the education
6 process is important and the difference it can make, when
7 you look at what the Everett plan in Boston, what a
8 difference that makes in terms of supply to New England.
9 When people understand that, I think they'll be willing to
10 accept -- see LNG as an opportunity, not a problem.

11 MR. MANNING: We certainly embrace the
12 opportunity for those hearings. We do believe that our
13 issues are not so much within eight miles of this chair,
14 they are out in the local communities.

15 COMMISSIONER KELLY: I think, David, that your
16 testimony highlighted another challenge that we face, that
17 is a challenge related to the increasing use of natural gas
18 for electric generation. NAESB has been helpful in trying
19 to coordinate both the gas and the electric sectors to come
20 up with a better way of handling nominations and supply and
21 transportation. I know it is a very difficult issue for
22 both of the industries to attempt to agree on changes that
23 will disrupt how the natural gas industry in particular has
24 handled this in the past. But I think it's imperative. And
25 I think this situation shows how imperative that it can be

1 that we coordinate that. I understand that electric
2 generators could buy firm transportation. On the other
3 hand, it's extremely expensive. And if firm transportation
4 isn't available, it's prohibitively expensive.

5 MR. MANNING: I didn't mean to oversimplify the
6 problem, Commissioner. I'm sure you understood the
7 situation that I find myself in. The industry has a very
8 different structure as an entity than it was even 10 years
9 ago or five years ago. So the generators have a very
10 different definition than they did a number of years ago.
11 And you're absolutely right, NAESB on issues of gas quality,
12 on the issue of nominations, the interface between the
13 generation sector and the gas distribution sector, is
14 critical.

15 COMMISSIONER KELLY: It says to me that one of
16 our priorities going into the future as a Federal Energy
17 Regulatory Commission is to facilitate and push the movement
18 of those discussions to see if we can't get better
19 coordination hopefully by next winter.

20 COMMISSIONER BROWNELL: I have a couple more
21 quick questions, David. You talked about that you're making
22 progress in the states about long-term contracts and
23 hedging. Could you talk about that? That's been an
24 enormous concern for us as we've seen the markets develop
25 over time. We've seen LDCs penalized if they guess right

1 and penalized if they guess wrong. What more -- tell us
2 about progress and is there anything more that we can do
3 about that?

4 MR. MANNING: Yes, I think there is real caution
5 among many of the LDCs because they do get very concerned
6 that they will get onside the state regulator. State
7 regulators are very concerned that they will, in fact,
8 burden the consumer. But in our conversations directly with
9 the commissions, I wouldn't say they are -- "embracing" is
10 too strong a word, but they are recognizing our side of the
11 argument or the discussion. They're indicating that they
12 wouldn't want to see a large volume of supply tied to long-
13 term contracts, but that they would be more tolerant -- I'm
14 trying to speak generically, obviously, because these are
15 not filings.

16 But we are getting informal indications from the
17 regulators that they're prepared to have that discussion at
18 least for some portion of the portfolio coming in and that
19 they are starting to recognize that and they're starting to
20 balance the need for infrastructure with the longer-term
21 concern about protecting the consumer.

22 So we're actually finding some receptive
23 conversations, I guess I could say, at the state level, and
24 particularly for new infrastructure in terms of renewals and
25 whatnot. I don't believe that's been our focus. Our focus

1 is exclusively on new infrastructure.

2 COMMISSIONER BROWNELL: Maybe come spring, we'll
3 have a couple of good case studies for those who hedged well
4 and those who didn't and talk about impact.

5 One more quick question. You referenced briefly
6 gas quality. I think we have actually -- DOE is doing some
7 kind of a study for us on gas quality. Is there a sense of
8 urgency? Do we need to do something quickly? If so, what
9 are the kinds of things that we need to do?

10 I think we were all hopeful that the industry
11 would come to consensus. You guys do that technical
12 analysis probably more efficiently than we do, but tell us
13 what the status of that is and what we need to be thinking
14 about.

15 MR. MANNING: Certainly. It's difficult to speak
16 for the AGA. Certainly there are a number of LNG consumers
17 who would welcome a rulemaking. I know the opportunity was
18 given to the industry to resolve these issues and I think we
19 came some considerable distance to set standards and to find
20 acceptable standards to all elements.

21 Our concern right now, however, is because of the
22 shift in product, because of the events in the Gulf, we are
23 seeing -- and it's going to be an issue for peak shaving,
24 it's going to be an issue for generators. And I think the
25 DOE studies should absolutely be of assistance and should

1 focus on some research into getting a better understanding
2 of what exactly those standards will be.

3 As I said, at this point it's not an appliance
4 issue for us generally. It's not an issue that's going to
5 impact the individual consumer as much; at least that's our
6 understanding. Certainly I don't believe that we yet have
7 consensus with the generating sector, so I think better
8 understanding of the technology would be helpful.

9 COMMISSIONER BROWNELL: Are you saying that in
10 the short term, i.e., this winter, it's getting dealt with
11 in terms of contractual relationships or simply agreement
12 among the parties and we don't need kind of setting
13 standards instantly? Help me out here in terms of what's
14 happening. Because we are seeing that change because of the
15 disruption.

16 MR. MANNING: You can see my hesitation. There
17 are so many different elements of the industry. Putting on
18 my Keyspan hat, I think Keyspan -- where we've put real
19 resources into this issue for two years -- and those people
20 report to me, so I'm familiar with that -- we would say a
21 rulemaking may be necessary and beneficial. I don't know
22 that that would be embraced by everyone in the industry, but
23 I think we've all been at the table.

24 So I would actually like to come back on that. I
25 think we're monitoring the situation and it's only in the

1 last six weeks that we've seen this additional nitrogen and
2 it's a richer supply coming in. We're monitoring this thing
3 very closely. I don't know if others could assist me with
4 this, but I -- just because of my position here, speaking on
5 behalf of the industry, I'd like to defer. But I would be
6 happy to respond.

7 MR. HORVATH: Let me go next. We agree with the
8 AGA that rulemaking is needed. Do we need it before the
9 winter? Can we even do it before the winter? You can't,
10 because of what the law requires, you go through a whole
11 rulemaking. We are, in fact, working really well with the
12 pipes and the processors -- a lot of cooperation.

13 We had a joint meeting where we asked each other
14 any complaints? No complaints. People are working
15 together. They're using their current contractual
16 relationships. They are figuring out ways to route around
17 the processing plants that are dead to processing plants
18 that are alive. There's 50 percent overcapacity of
19 processing in this country -- that's the really good news --
20 and we'll find a way to get to those plants with the help
21 of the downstream folks.

22 So do we need something before this winter? No.
23 We think that given the changes in the Gulf because of the
24 hurricanes, our earlier press for urgency I think has now
25 led us to try to get through this winter and address the

1 longer-term concern in the spring.

2 COMMISSIONER BROWNELL: Maybe actually as we get
3 through the winter we'll learn something that might inform
4 the rulemaking in the future.

5 MR. HORVATH: I think it's only fair that INGAA
6 say something.

7 MS. WYRSCH: I would tell you that we are
8 proactively in discussions with affected customers,
9 primarily around LNG. That's been a real focus for us. The
10 current production, we have not seen gas quality problems,
11 although we're very cautious right now because of the
12 processing issues we see coming out of the Gulf and paying
13 very careful attention to that. I think Skip is right, we
14 are working well together following the contractual
15 provisions, working hard to be sure we have the right gas
16 quality getting to the system.

17 COMMISSIONER KELLY: Martha, I'd like you to
18 comment a little bit more on that process of negotiating
19 directly with producers for the supply into your pipeline.
20 As we've looked at the issues surrounding coming up with a
21 standard for gas quality, what we are very aware of is the
22 fact that given the tight gas supply we do not want to set a
23 standard that's too high for all pipelines. And, in the
24 best of all possible worlds, we would look at gas quality on
25 a pipeline system by pipeline system and have the pipelines

1 blend as much as they can so that we can maximize the number
2 of Btu's we can get into the system and still deliver
3 pipeline-quality gas. That puts a big burden on the
4 pipeline. How are you handling it and how do you anticipate
5 handling it in the Gulf and how is that working?

6 I understand that you are working cooperatively.
7 Are you using your old contracts? Are you developing new
8 contracts? Are you bypassing your contracts? Because some
9 of the contracts that were in place -- that are in place
10 don't deal with this issue.

11 MS. WYRSCH: Remember first that we don't own the
12 gas that's on our pipelines, so we work very closely with
13 the producers who have gas available to come on, the
14 customers who are developing their own negotiated provisions
15 with the producers to get gas into the system.

16 From our pipeline's perspective, we are following
17 our current contracts. We have a very clear view of what
18 our systems can take. We want to be sure that we don't
19 undermine the quality of our pipeline over time, although
20 we're also very much aware that we need to get as much gas
21 into the system with the highest Btu content that's possible
22 without, again, negatively impacting the ability of that
23 pipeline over the course of time to be available for use.

24 So I would tell you that currently today we
25 continue to work under the contracts that we're currently

1 utilizing and that those discussions with parties that are
2 contracted are working well.

3 COMMISSIONER KELLY: We were under the impression
4 that existing contracts didn't provide all the protection
5 that you needed to ensure for gas quality. That's why we
6 started this whole gas quality --

7 MR. HORVATH: Are you referring to the tariffs?

8 COMMISSIONER KELLY: Tariffs. Do your contracts
9 differ significantly from your tariffs?

10 MS. WYRSCH: I'm sorry, but I'm not versed enough
11 to answer that level of detail. But we can get back to you
12 and let you know particularly how INGAA and the industry is
13 handling it.

14 COMMISSIONER KELLY: Thank you. Because perhaps
15 what you're doing in the Gulf is something that we can use
16 in the future on a more comprehensive basis.

17 CHAIRMAN KELLIHER: We are running long, but I
18 wanted to see if Staff had any truly excellent questions
19 that they wanted to put.

20 (Laughter.)

21 COMMISSIONER BROWNELL: As opposed to ours?

22 (Laughter.)

23 CHAIRMAN KELLIHER: No, I think ours are
24 excellent, but I wanted to see if they had any truly
25 excellent questions they wanted to pose to this panel at

1 this time. Go ahead.

2 MR. FLANDERS: Mr. Manning, you mentioned
3 contingency planning. Can you tell me what you were
4 referring to?

5 MR. MANNING: We need to get an understanding of
6 all the impacts on the whole transmission chain. The
7 difficulty we have is I believe we are probably -- Keyspan,
8 I believe, is probably the largest shipper on several
9 different pipelines to the northeast. Some of them are in
10 different stages of return to full operation.

11 The challenge that we have is that as we look at
12 purchasing additional LNG for Cove Point or offering on-
13 system sales from our producer area storage, that kind of
14 thing we need to have the best possible communication and
15 understanding of what we can count on or not count on going
16 forward. Plus we are in -- over two-thirds of our supply,
17 as I indicated, is either storage or committed. We're
18 reviewing that further to see if we can in fact even reduce
19 our exposure to the marketplace for this winter.

20 But as we head into the winter, with the
21 uncertainties of the weather and the uncertainties of the
22 return from the Gulf, we want to be able to maximize the
23 opportunity to communicate with our major suppliers. That's
24 why I indicated it is limited only for contingency planning.
25 This is not in fact longer-term fuel supply or market

1 advantage. This is just strictly trying to understand fully
2 what we must contend with at our end of the pipe.

3 MR. FLANDERS: Thank you.

4 MR. WRIGHT: I just had one very quick question
5 for Skip. Looking at your chart you passed out that said 6
6 Bcf per day are shut in, can you attribute that all to
7 processing plant shutdowns or is there other mitigating --

8 MR. HORVATH: It's not all processing. It's a
9 combination of supply and processing. But there is a lot --
10 I don't know how much, but there's a lot of gas ready to
11 come onshore. And once you move out around those plants or
12 get them back operating, we'll see more coming on fairly
13 quickly.

14 MR. WRIGHT: Can you attribute the lag in coming
15 back on -- as opposed to Ivan -- mostly to the processing,
16 damage to processing plants this time around?

17 MR. HORVATH: That and the double hurricane hit.
18 Those two together are causing the slower rate of recovery.

19 MR. WRIGHT: Thank you.

20 CHAIRMAN KELLIHER: Were there any more
21 questions?

22 (No response.)

23 CHAIRMAN KELLIHER: I just wanted to thank the
24 panel and alert you to the possibility that you'll get some
25 written questions to complete the record of the conference.

1 But thank you very much.

2 MR. WRIGHT: If the second panel could come up
3 and take their places.

4 (Pause.)

5 I'd like to quickly introduce our panel so we can
6 get right into it. We're running a little bit behind time,
7 so if we can get to the meat of the matter. This panel
8 consists of Commissioner Donald Mason of the Ohio Public
9 Utilities Commission, also the Chair of the NARUC Gas
10 Committee; James Cleary, President of the Western Pipelines
11 of the El Paso Corporation; Michael Walsh, Managing
12 Director, AIG Highstar; Scott Parker, President of Gas
13 Pipelines at Kinder Morgan; and Todd Shipman, Director,
14 Energy and Project Finance, Standard & Poor's.

15 Commissioner Mason was our keynote speaker at
16 last year's meeting will lead off this panel. Commissioner
17 Mason.

18 MR. MASON: I'd like to thank you for having me
19 here. I'm speaking not only on behalf of the Ohio
20 Commission to the degree we're looking into long-term
21 contracts, but also on behalf of our national association.
22 I'd like to say our committee, the NARUC Committee on Gas,
23 has had several concurrent sessions at our national meetings
24 on the very subject of whether long-term contracts could in
25 fact help encourage investment into the infrastructure over

1 the last several years. Our sessions have included
2 discussions with members of the financial community, the
3 pipeline companies, the electricity generators, and the
4 LDCs.

5 Additionally, in the spring of 2005, the
6 Interstate Oil and Gas Compact Commission Chairman, Governor
7 Frank Murkowski, asked the NARUC Gas Committee to work with
8 the IOGCC in creating a task force for the purpose of
9 looking into the issue of whether or not contracting
10 practices were inhibiting the investment of pipeline
11 companies into new infrastructure.

12 As you are very aware, the Alaska natural gas
13 pipeline represents the largest construction project in
14 American modern history. Furthermore, according to the 2003
15 NPC study, those gas purchasing practices shortened from 10
16 years and longer to an average of less than three years. In
17 fact, many LDCs are going year to year in their contracting
18 practices. So NARUC and IOGCC formed the working task force
19 comprising utility commissioners and oil and gas directors
20 from producing states.

21 Shortly thereafter, through the National
22 Regulatory Research Institute, which is NRRI, and NARUC
23 staff, we developed a survey of state public utility
24 commission staffs to determine what the actual present
25 practices of the LDCs were. In fact, we found utility

1 commission staffs were either encouraging short one-year
2 contracts or were not encouraging long-term contracts. We
3 also found that utilities were concerned that if they
4 entered into long-term contracts that they were at risk in
5 future cases with commissions and staffs should prices drop
6 between the date the contracts were entered into and the
7 time of the audit. Consequently, there was a chilling
8 effect on the desired purchasers of natural gas to enter
9 into long-term contracts.

10 In August, we conducted a workshop at the
11 District of Columbia Public Service Commission chambers and
12 subsequently received comments from pipeline companies,
13 natural gas LDCs, producer associations and other parties
14 such as the Edison Electrical Institute. As a result, the
15 task force has completed its report, which will be issued
16 soon. However, I'll summarize the report conclusions today.

17 Our policy recommendations include that state
18 regulators should take a more active role in encouraging
19 long-term supply, transportation and storage contracts. In
20 certain circumstances, some regulators and utilities may
21 appropriately consider preapproval of long-term contracts.
22 State regulators and gas utilities should consider engaging
23 in meaningful and active way up front through collaborative
24 processes which could mitigate the uncertainties over the
25 regulators' positions on long-term contracting.

1 Because of the nature of long-term contracts and
2 its potential effect on utilities' balance sheet or
3 financial exposure, it may be sometimes crucial or prudent
4 for state regulators to support long-term contracts in
5 advance. Additionally, as an extension of the broad
6 recommendations, state regulators should minimize second-
7 guessing and taking the short-term perspective when
8 evaluating long-term contracts.

9 What we mean by that is it's possible that the
10 first year, the second year and even the third year of a
11 long-term contract might not bode so well for the utility;
12 however, taken over a 5-year or 10-year period, the overall
13 gains might net out to the consumers' benefit. We're saying
14 look at the long-term in determining value, not just a given
15 year within that period.

16 Additionally, state regulators should recognize
17 the urgent need for additional gas delivery infrastructure
18 in order to moderate the level as well as volatility of
19 future natural gas prices. New infrastructure will be
20 required to access new gas supply sources from LNG terminals
21 and new production regions. New infrastructure will assure
22 reliable service on existing pipeline corridors, adequate
23 storage, and to accommodate market needs in connection with
24 the new customers to main trunklines.

25 Additionally, state regulators should consider

1 long-term contracting as an appropriate mechanism to manage
2 long-term price and volume risk within the confines of the
3 utilities' portfolio strategy. State regulators should
4 recognize the special features of certain infrastructure
5 projects, specifically the Alaska gas pipeline and multiple
6 LNG projects that will require substantial revenue
7 guarantees.

8 State regulators should consider requiring gas
9 utilities to develop long-term strategies for pipeline
10 capacity, gas storage, gas supply acquisitions, even in the
11 10-year-plus range. And our recommendations came back
12 without asking for other obstacles in the way of -- I might
13 say some came back and were actually directed more at FERC
14 practices, but we'll include them.

15 FERC should revisit its policies for pricing
16 different pipeline services in addition to its other
17 practices that may have a stifling effect on contracting for
18 long-term gas delivery services. At a minimum, state
19 regulators should not discourage long-term contracts. State
20 regulators, in addition to regional power operators, should
21 recognize the benefits of electric generation holding firm
22 long-term capacity for pipeline transportation and storage.
23 We do realize there are certain costs associated with those.

24 I'll close my remarks and be available for
25 questions. We, again, will be issuing our full report later

1 on today, if not, this week. And I do appreciate the
2 concern and the questions by the Commissioners and Chairman
3 regarding not just long-term contracts, but also hedging,
4 because we've had a series of panels and presentations and
5 have developed a position on that also.

6 MR. WRIGHT: Thank you, Commissioner Mason.

7 Mr. Cleary.

8 MR. CLEARY: Thank you.

9 The question for this panel is whether the
10 pipeline industry can construct sufficient infrastructure to
11 meet growing market demands and changing sources of gas
12 supply. As president of El Paso's western pipelines, which
13 transport 2.7 trillion cubic feet of gas a year from some of
14 the fastest-growing supply regions in the country, I want to
15 focus on one significant threat on our ability to operate
16 existing infrastructure and to build new infrastructure.
17 That is the hugely inflated cash demands we are seeing from
18 Native American tribes for their so-called consent to right
19 of way agreements for new and existing infrastructure.

20 As an initial matter, I'm not here to talk about
21 any particular tribe or the cost impact on any particular
22 pipeline's rates. My focus is on a national problem and
23 national policy solutions.

24 Before we get into this discussion though, I
25 would like to take a minute to acknowledge and extend our

1 appreciation to the Commission for its timely and
2 expeditious processing of major certificate applications,
3 particularly for the Commission Staff's diligent efforts to
4 work with us to permit and construct necessary
5 infrastructure. Using our recent Cheyenne Plains project as
6 an example, which involved 380 miles of 36-inch diameter
7 line to move gas out of the Rocks, we were able to obtain a
8 Section 7 certificate within 10 months from the date of
9 filing and achieved a timely within-budget in-service date
10 due in part to the professionalism, dedication and excellent
11 work from this Commission's Staff. I wanted to thank you
12 for that.

13 If I also could start by responding to a question
14 that Commissioner Kelly raised at the outset concerning the
15 need for federal corridors and coordination, in terms of
16 right of way acquisition in the west, much of the land is
17 administered by the Bureau of Land Management. Right of way
18 acquisition actually goes fairly smoothly because we have
19 standards and it's a fairly known process. Continued
20 interagency coordination is essential to have parallel
21 processing of applications, and the work that you-all have
22 done with the interagency MOUs is very helpful.

23 A cautionary note: we are seeing some slipping
24 in a recent case involving some state SHIPO and national
25 SHIPO proceedings, which didn't start until after this

1 Commission issued its permit. I hope that's an isolated
2 instance and not indicative of things in the future.
3 Certainly the concept though of coordination on energy
4 corridors is most helpful. I would urge you to look to ways
5 to involve the states and the case of the issue I'm going to
6 talk about, certainly tribal lands, particularly those held
7 in trust and administered by the federal government.

8 My issue here today involves the Natural Gas Act
9 and the certificate process. Under the Natural Gas Act,
10 pipelines have the right to acquire right of way that's
11 necessary for the construction of a certificated facility
12 through the use of eminent domain. Those eminent domain
13 actions are filed typically in state court and federal court
14 and there's a body of law and standards that really develop
15 to fair market value. As a consequence, pipelines are often
16 -- and we find 90-percent-plus of the time -- able to
17 negotiate acceptable arrangements with landowners at, near
18 or slightly above fair market value.

19 In the west, however, there are thousands of
20 miles of pipelines that cross tribal lands. Unfortunately,
21 the question of whether pipelines have the right of eminent
22 domain under the Natural Gas Act over tribal lands has not
23 been fully addressed by the courts. In the past, the
24 practice has been as tribal consent agreements are initiated
25 or come up for renewal, they're typically granted for 10- or

1 20-year terms. We have been able to enter into negotiations
2 and reach reasonable settlements, fair market value or a
3 modest and reasonable premium to fair market value for non-
4 Native American lands. But recently we're seeing tribal
5 demands grow exponentially and consent payments are
6 increasing for right of way on tribal lands by 50 or 100
7 times fair market value on non-tribal lands.

8 I think as existing pipelines right of way in the
9 west expire and with the tribes' appetite for exponentially-
10 increasing payments and the lack of any standard to guide
11 these negotiations, we think this problem is going to get
12 much, much worse. I have for you a handout that shows the
13 overlap between interstate pipelines and tribal lands in
14 various portions of the west. The total miles are not large
15 in the aggregate. You should note that they come at key
16 access points to prolific basins like the Uinta Basin in
17 Utah, the Wind River Basin in Wyoming, and the San Juan
18 Basin in northern New Mexico. Access to those lines and
19 basins through the interstate grid is critical.

20 What does this do for pipelines and the FERC? I
21 think it presents an untenable choice for pipelines.
22 Pipelines can either accede to the tribes' demands for
23 exponentially increasing payments and pay compensation that
24 is many, many times fair market value or pipelines can
25 refuse to pay, which could provoke trespass actions brought

1 by tribal governments and the prospect of being ordered in a
2 tribal court to cease service on pipelines that run through
3 tribal lands.

4 Notwithstanding the certificate obligation that
5 we carry under the Natural Gas Act to continue service to
6 our customers until abandonment is approved by this
7 Commission, clearly if tribes can effectively force
8 pipelines to cease service without the FERC's consent, we
9 have a huge gap in the interstate regulatory scheme applying
10 to our pipelines.

11 Also, if tribes can effectively block new
12 construction by wholly unreasonable demands for compensation
13 for right of way, that frustrates this Commission's pro-
14 infrastructure goals as well as national energy policy. I
15 should add that these practices really harm the tribes as
16 well. It is certainly not in their long-term economic
17 interest. Exponentially increasing demands for consent
18 payments really amount to a de facto tax on energy
19 infrastructure and demands of 50 to 100 times fair market
20 value in order to obtain tribal consent sends a loud and
21 clear message to energy companies: don't invest here.

22 Fortunately, Congress has recognized this problem
23 in Section 1813 of the Energy Policy Act of 2005, which
24 requires the Department of Energy and the Department of
25 Interior to conduct a joint study of this issue and to

1 submit a report to Congress, along with recommended
2 solutions, by August of next year. This 1813 study will
3 look at the history of tribal consent payments for right of
4 way access, evaluate the impact of current practices on
5 energy infrastructure, and propose solutions to the Congress
6 for determining consent compensation for tribal right of way
7 that is both consistent with national energy policies and
8 fundamental fairness.

9 So what do we think the FERC should do to help
10 solve this problem? First and foremost, we would urge this
11 Commission to take a very active role in the Section 1813
12 study. Clearly there are cost implications for the
13 pipelines you regulate, but also I think implicates
14 jurisdictional questions related to this Commission.

15 Specifically, we'd urge you to look for ways to
16 contribute to the analysis of historic compensation rates,
17 data collection of what pipelines have been paying for
18 Native American right of way to help develop standards for
19 fair and appropriate compensation levels. As part of that
20 study, for example, the FERC could recommend that Congress
21 clarify Section 7(h) of the Natural Gas Act to make clear
22 that the pipelines eminent domain authority extends to
23 Indian reservations upon payment of just compensation, that
24 is, fair market value as measured by right of way payments
25 paid to non-Indian landowners. And, third, to provide to

1 the Department of Energy and DOI an analysis of the national
2 energy policies that are potentially impacted by current
3 tribal right of way practices.

4 Finally -- this would be separate from the study
5 -- we think the FERC should be fully prepared to take the
6 position that any action by a tribal government that would
7 effectively force abandonment of the pipeline would
8 impermissibly encroach upon this Commission's exclusive
9 jurisdiction under the Natural Gas Act.

10 Thank you.

11 MR. WRIGHT: Thank you, Mr. Cleary.

12 Mr. Walsh.

13 MR. WALSH: Thank you. My name is Michael Walsh.
14 I'm managing director of AIG Highstar Capital. We are a
15 group of private equity funds sponsored by AIG's global
16 investment group. My partners and myself manage
17 approximately 1.2 billion of capital commitments from our
18 limited partners. The Highstar investment thesis is really
19 focused on investing in infrastructure assets, primarily in
20 the United States. Investments that we've made to date are
21 water, wastewater, utilities, power generation, municipal
22 solid waste and, of the most import to this Commission,
23 investments in the midstream gas sector, the Southern Star
24 Central natural gas pipeline, and we have an ownership
25 interest in the Stagecoach natural gas storage facility in

1 New York State.

2 What I'd like to do is speak briefly about some
3 of the aspects of investing in a regulated business to
4 provide some guidance on how investors look at some of the
5 regulatory regimes that we operate under as financial
6 investors, and then try to tailor our experiences into some
7 of the questions that have been posed to the panel.

8 The fundamental nature of investing in these
9 regulated businesses really presents a very unique dynamic
10 of opportunities and risks to financial investors in this
11 space. The specified standards that you operate under with
12 respect to your operations require capital investments,
13 regulated rates of return, guidance that's provided to you
14 on your capital structure, as in amounts of leverage you're
15 able to prudently apply to these businesses.

16 It's balanced off by the critical aspect that
17 these assets represent in the natural gas infrastructure in
18 the United States. There's an interesting dynamic there of
19 less flexibility than we usually receive in other
20 investments versus the very high demand that we do see for
21 these types of businesses.

22 As financial investors, frankly, our interests
23 are largely aligned with those of my colleagues on this
24 panel and those who've come before. We represent more
25 traditional owners of these types of business. With respect

1 to the Commission's regulatory oversight, what we seek is
2 clarity and consistency with respect to recovery of our
3 investments in the business, particularly with respect to
4 capital investments that are required to meet regulatory
5 changes, i.e., new environmental standards or changes to the
6 Office of Pipeline Safety requirements.

7 We do seek collaborative determination of an
8 appropriate return on equity for the investors which takes
9 into account not only returns on equity that are provided to
10 comparable companies trading in the public space, but also
11 appropriately rate and apply a risk rating to the return on
12 the capital that is provided to these businesses.

13 We do acknowledge that the Commission's ruling
14 earlier in May of this year, which clearly and accurately we
15 believe reflects the impact of taxes on investment decisions
16 which are made by both corporate and non-corporate owners of
17 these types of businesses. We think that was a very clear
18 outcome and we believe the proper one.

19 Highstar's experience as investors in both
20 natural gas storage assets and natural gas pipelines has
21 given us some exposure to both market-based rates and in-
22 cost service-based rates. Our investment in the storage
23 facility, clearly a market-based rate opportunity, we
24 believe that is a model that is appropriate and encourages
25 subsequent investment in those types of assets from people

1 like us, financial investors.

2 Certainly with respect to natural gas storage,
3 the opportunity to develop those projects on a relatively
4 expedited basis versus a larger-scale pipeline
5 infrastructure type investment enables you to draw some
6 certainty about the commercial prospects for the business
7 and provides a great deal of flexibility, which some of the
8 prior panels have discussed.

9 LNG storage facilities obviously require a
10 significantly higher capital investment. We do expect to
11 see those continue to be developed under longer-term supply
12 contracts. I would expect that given those types of
13 contracts underlying those project developments, additional
14 financial investor activity will be conducted in that space.

15 During our ownership of the Southern Star Central
16 pipeline, one of our initiatives was to pursue the potential
17 development of the new pipeline which would transport new
18 supplies of natural gas from the Rockies into markets in the
19 mid-continent that Southern Star Central serves. Given the
20 scale of the project that we were contemplating, the capital
21 investment associated with it, long-term contracts were
22 absolutely critical to us being able to move forward with
23 that project, and that required obviously significant
24 meetings, marketing activities between the pipeline
25 personnel and the suppliers and customers that we were

1 approaching.

2 The interesting fact which I think has been
3 highlighted by some of the other panelists is the market
4 realities that you actually face from these constituencies
5 drive them both to the same result for two very different
6 reasons.

7 As you can imagine, the suppliers we were
8 speaking to were somewhat reticent to sign up to longer-term
9 transportation agreements. Given the price of natural gas,
10 it's very difficult to fault them for their decision.
11 However, that lack of support makes it very difficult for a
12 project to be completed, which in the longer-term nature of
13 these businesses, would be expected to support their
14 activities as producers.

15 Conversely, our LDC customers certainly did have
16 interest as communicated to us to enter into these long-term
17 contracts but, as has been mentioned before, the regulatory
18 agencies that they reported to and their rate recoveries
19 were generally of an opinion that longer-dated contracts
20 were not particularly supportive for them, so the project
21 ended up not moving forward and I think it's frankly for
22 lack of some of the institutional support at the state level
23 that really would have driven that home. Because as my
24 colleague Mr. Cleary mentioned, the Cheyenne Plains project
25 obviously being a significant addition to the natural gas

1 infrastructure in the mid-continent, we do believe there is
2 space for another project there.

3 Just looking at the opportunities a little more
4 broadly, there is a project that's been proposed by EnCana
5 which is an interesting new dynamic. It's really a
6 producer-driven project. It remains to be seen whether
7 that's going to move forward and how that shakes out, but we
8 do look at that as investors as a new dynamic and a new
9 player in this marketplace.

10 Thinking -- just reflecting quickly on the Energy
11 Policy Act with respect to natural gas investments, we do
12 look at the Act in general as being positive for investments
13 of the nature that we like to make in this space, certainly
14 to the extent clarity can be created around fostering new
15 pipeline corridors has been discussed and certainly the
16 siting of new LNG projects, I think that's all to the good.
17 The question that we face as financial investors is the time
18 value of our money. And frankly, the time it requires to
19 work through those issues somewhat makes our participation
20 in those opportunities impossible, just from a cost of
21 capital standpoint.

22 In summary, I believe opportunities do exist for
23 financial investors to continue to provide capital to the
24 natural gas infrastructure in the United States. I do
25 believe going forward most of those opportunities are going

1 to circle around natural gas storage investments in that
2 opportunity and some of the more development stage
3 opportunities in natural gas.

4 Thank you, and I look forward to your questions.

5 MR. WRIGHT: Thank you, Mr. Walsh.

6 Mr. Parker.

7 MR. PARKER: Thank you, Chairman, Commissioners,
8 and Staff. My name is Scott Parker, the president of Kinder
9 Morgan's gas pipeline group.

10 I want to thank the Commission for accepting my
11 request to speak here today. I appreciate the opportunity
12 to share Kinder Morgan's views on the development of new
13 pipeline construction. As you know, the great focus of this
14 industry has been on building new pipeline infrastructure.
15 Today I'd like to discuss the development of both storage
16 and pipeline infrastructure with the Commission.

17 Let me emphasize right off the bat that the
18 pipeline industry, it's investors and bankers, have the
19 capacity to build the necessary infrastructure. However,
20 the investment in development is heavily dependent upon
21 stable regulatory policies which reflect current market
22 requirements. The Commission must be vigilant to recognize
23 the realities of the market as they emerge.

24 First I'll talk about storage. Today Kinder
25 Morgan's natural gas pipeline company operates eight natural

1 gas storage fields consisting of aquifer, depleted reservoir
2 and salt-type fields, a wide variety. This is in total
3 approximately a Bcf of working gas capability. We agree
4 with various recent industry studies, including the NPC
5 study, which projects that significant additional storage
6 capabilities will be needed to be constructed to meet
7 typical peak day demand, electric generation growth, and
8 especially LNG balancing requirements of the marketplace.
9 The ongoing development of LNG terminals and their ability
10 to supply the market with significant daily supply inputs
11 ranging from 1 to 4 Bcf per terminal will challenge the
12 existing storage and pipeline infrastructure.

1 Companies like Kinder Morgan are answering the
2 challenge to develop storage. In our case, Natural Gas
3 Pipeline Company of America in 2004 expanded their North
4 Lansing storage field by 10 Bcf and currently has under
5 construction a 10 Bcf expansion of the Sayre storage fields
6 in Beckham County, Oklahoma. We've recently filed with the
7 Commission for expansion of our North Lansing storage field
8 by 10 Bcf in Harrison County, Texas. However, in today's
9 market, the high price of cushion gas is dramatically
10 hindering the development of both expansion of existing and
11 development of new greenfield storage.

12 Much of what I would call the low-hanging fruit
13 or cheaper expansions of existing fields have been picked
14 over the last five years. Given the current high cost of
15 development, many new storage development opportunities are
16 not economic at today's prices offered in the current
17 marketplace. Consequently, it is not likely that these
18 projects will be constructed in the short term. We believe,
19 unless the current paradigm changes, that the development of
20 the low-hanging fruit will not provide the level of storage
21 development required to meet the future needs of this
22 marketplace.

23 The bottom line today is that shippers are not
24 willing to sign up today for storage services at rates that
25 would be required to fund the development and companies are

1 not willing to go at-risk and invest significant dollars
2 without some assurance in the future that they will be able
3 to achieve a return on their investment. It is important to
4 note that any significant storage development spans multiple
5 years. We must start the development now if we're going to
6 meet the market's needs in the future. By allowing the
7 presumption of market-based rates for both greenfield and
8 the expansion of existing storage fields, we believe the
9 Commission can provide the right foundation for storage
10 developers to move forward today and immediately develop new
11 storage infrastructure. The developers will take the risks
12 and undertake development of storage with the belief that in
13 the future they will be able to capture market rates on
14 their services and achieve an overall return on investment.

15 Market rates for new storage infrastructure is
16 appropriate. As a matter of public policy, the prospect of
17 having market-based rates for both greenfield and expansion
18 of existing storage fields is imperative. We believe there
19 exist significant opportunity for expansion of existing
20 storage by providers to quickly expand these existing
21 storage fields if market-based rates were allowed with the
22 integrated pipeline grid and the physical storage fields
23 residing both in the market and in the field areas. The
24 sell storage services faces competition from a variety of
25 storage providers, including shippers releasing their

1 capacity. Expanding existing storage is equally competitive
2 with the construction of new greenfield projects since that
3 capacity for both competes across the same pipeline grid.
4 Customers will have greater choices than they do today
5 versus if incremental storage was not constructed.

6 Now I would like to move to the development of
7 large new pipeline infrastructure. Large infrastructure
8 projects are needed, not just to address the growing needs
9 of the market, but to meet a fundamental shift in the
10 location of supply growth within the United States. The
11 growing supply in the Rockies and upcoming inputs from LNG
12 will provide some of the greatest near-term incremental
13 growth in supply in the United States. We believe the
14 existing pipeline grid is not sufficient to effectively move
15 that supply to market. We need not only to connect that new
16 supply, but to build pipeline projects that alleviate the
17 bottlenecks and not just move the bottlenecks from one
18 region to the other -- say the Rockies to the mid-continent,
19 but to get the gas to the marketplace.

20 Kinder Morgan has recently announced an open
21 season on a \$490 million, 137-mile LNG pipeline in the State
22 of Louisiana and have obtained conditional agreements from
23 multiple shippers for the combined 3.4 Bcf on the initial
24 project capacity. Additionally, we are developing a project
25 in conjunction with Sempra to move gas out of the Rockies to

1 the east coast as designed the 42-inch diameter pipeline
2 will have the capacity of up to 2 billion cubic feet per day
3 and cost an estimated \$3 billion. The preliminary route of
4 the 1500-mile pipeline originates at Wamsutter in Wyoming
5 and extends to eastern Ohio. Other companies are working on
6 projects. These are just a few examples of a few major
7 pipeline infrastructure projects to allow new gas supplies
8 to access the market, but will supply significant investment
9 by developers. Pipeline developers need long-term contracts
10 to support an investment of \$500 million to \$3 billion. At
11 the same time, these pipeline projects are supply driven and
12 they need to be flexible enough to accommodate the
13 underpinning economic assumptions of the supply developers
14 who are also making a significant investment in either the
15 basin of the supply or upstream of the LNG terminal. These
16 large infrastructure projects typically have typically a few
17 large shippers who commit early to the project -- usually
18 prior to an open season and provide the underpinnings to
19 allow the much needed infrastructure to be developed.

20 Typically, these are producers in the region that
21 are investing significant dollars in production development.
22 Or, in the case of LNG, these are through-put holders at the
23 LNG terminal. I will refer to these shippers as foundation
24 shippers. These foundation shippers share the early risk of
25 project development with the pipeline and typically hold a

1 major portion of the capacity. The current open season and
2 negotiated rate policies are appropriate for more
3 conventional projects of a smaller scale not requiring the
4 same capital commitments and therefore typically supported
5 by multiple shippers with shorter term contracts and small
6 increments of capacity commitments.

7 We encourage the Commission to be flexible in
8 working with a pipeline on these larger projects as the
9 pipeline negotiates with foundation shippers to develop this
10 much-needed infrastructure. We certainly understand the
11 Commission must be vigilant that they are not unduly
12 discriminatory. However, where variations from the current
13 policy can be demonstrated to be a reasonable accommodation
14 to meet the needs of a project, ensuring it moves forward
15 quickly, we would suggest that that does not constitute
16 undue discrimination and should be permitted, and we provide
17 a few examples.

18 The ability to ensure a foundation shipper that
19 they will be awarded a minimum level of capacity on a
20 project is imperative. This may require the pipeline to
21 construct a larger project to meet an open season request
22 and/or allow the foundation shippers, prior to any pro-
23 rating, to match bids that occurred after their pre-open
24 season bids. In some situations, based on the benefits that
25 the foundation shipper brings to a large project, the open

1 season may simply provide that the foundation shippers will
2 not be pro-rated.

3 Another example is allowing foundation shippers
4 in the future to have the ability to trigger an economic
5 expansion on the pipeline system and potentially have an
6 option on that capacity. The ability to differentiate
7 between shippers based on their level of capacity commitment
8 to the project is important. The ability for foundation
9 shippers to have step-down rights on their capacity
10 commitments if a minimum project description is achieved is
11 also important. I'll give a little more detail about that.

12 If, in the early stages of a project development,
13 the pipeline company is assured a minimum volume commitment
14 by a foundation shipper, the pipeline will immediately move
15 forward in committing millions of dollars, and I'm talking
16 about significant dollars in early development on
17 preliminary engineering and environmental work, thereby
18 significantly shortening the overall project development
19 timeline to be in service. However, the foundation shipper,
20 in the end, may not have wanted to take the full risk on
21 this minimum volume commitment but is willing to do so to
22 move the project along to meet their requirements also.

23 A key incentive for the foundation shipper make
24 that commitment is providing them the ability to step down
25 as shippers during later development stages. However, a

1 pipeline should not be obligated to make that same right
2 available to other shippers that come along at a much later
3 point in the project. And, finally, continuing to allow, as
4 the Commission has, the ability to utilize the flexible
5 negotiated rate authority is very important in building
6 large projects.

7 Finally, we believe that many new concepts and
8 ideas need to be developed between the industry participants
9 and the Commission to ensure that large project
10 infrastructures get built. I would like to discuss one such
11 idea we have and I'll refer to it as our as aggregator
12 proposal.

13 As part of our project out of the Rockies, we
14 have recently announced entering into an exclusive MOU with
15 the Wyoming Natural Gas Pipeline Authority for them to
16 contract up to 20 million a day of firm capacity on the
17 proposed pipeline, explore the use of their 1 billion in
18 bonding authority to provide debt financing for the project
19 and provide support for the extension of the project to the
20 Opal Hub in Wyoming.

21 The WNGPA is an instrument of the State of
22 Wyoming formed by the legislature to facilitate production
23 and transportation of Wyoming natural gas. We are
24 encouraged by their support of the project. Small producers
25 do not typically commit long term to pipeline capacity due

1 to their need to invest their resources into drilling and
2 their limited credit capabilities.

3 As part of the project, we intend to develop and
4 propose a new supply aggregator concept which will allow
5 entities like the WNGPA to assist small producers who would
6 not typically sign up for projects -- large pipeline
7 projects for sure. Additionally, the State of Wyoming is
8 exploring working with the WNGPA as to whether they can
9 aggregate their royalty in-kind gas in conjunction with the
10 small producer commitments. Under this concept, the
11 aggregator would hold the pipeline capacity under the long-
12 term commitments and provide the credit support for that
13 capacity commitment to the pipeline. The aggregator would
14 gather or aggregate various production to fill the pipeline
15 capacity. The small producers would commit their production
16 to the aggregator on a variety of scenarios that fit their
17 production profile.

18 For example, an aggregator may have a commitment
19 from one producer for a couple of years with a reducing MDQ.
20 Or an aggregator may have a commitment from another producer
21 with an increase in MDQ. Additionally, an aggregator may
22 combine up with very small producers, which is volumetric
23 commitments from those producers in support of a pipeline
24 project.

25 The aggregator would not necessarily buy the gas

1 or hold title to the gas. To alleviate any concerns with
2 the shipper must have title rule, the pipeline would set up
3 on their electronic bulletin board a posting where the
4 aggregator would publicly disclose, after the fact, the
5 entities that are aggregated gas for and the volumes that
6 flowed over a period of time.

7 We believe this aggregator concept will help
8 provide support to get the larger pipeline projects built.
9 We look forward to working with the Commission on its
10 development and implementation. We believe, if the shipper
11 must have title rule, it's sufficiently addressed. This
12 concept should move forward under the current regulation
13 since the aggregator agreement with third-party producers is
14 properly a non-regulated contractual matter.

15 That concludes my comments for today. I
16 appreciate the opportunity to speak and will answer any
17 questions you have.

18 MR. WRIGHT: Thank you, Mr. Parker.

19 Mr. Shipman will finish this panel.

20 MR. SHIPMAN: Thank you, Jeff.

21 Mr. Chairman, Commissioners and staff, thank you
22 very much for inviting Standard & Poor's to come and allow
23 us some time to give you of our perspective on the question
24 before you today.

25 The quick answer, so to speak, to the issue of

1 credit quality in the industry -- in the pipeline industry
2 is mixed. The ratings that we have today on natural gas
3 pipelines go anywhere from the A category, which is a
4 relatively high category -- not the highest, but it's pretty
5 lofty -- all the way down to single D, which is pretty low.
6 It's just a few steps away from the lowest of the low, which
7 we won't mention. I'll get into a little bit of why that
8 is.

9 But, in general, what I'd like to do is take you
10 through a little bit about how we look at pipelines from a
11 credit perspective, how we come up with the ratings and
12 things like that and then address a couple of kind of
13 current issues as far as structure -- how pipeline projects
14 are structured and things like that. To the extent that you
15 have questions about it, I'll try to get through it quick
16 since we're running so late. But, to the extent that you
17 have questions -- here or later -- we'll be happy to expand
18 upon some of the points I'm going to make.

19 Traditionally, the pipeline industry has enjoyed
20 very high credit quality and very high credit ratings,
21 mostly because of folks like you and the gentleman from Ohio
22 there -- regulators. As much as companies like to complain
23 about them sometimes, from a credit perspective, really
24 provide a very solid underpinning for credit quality. And
25 what we look for on the credit side more than anything else

1 is stability. I think that's been mentioned a couple of
2 times this morning. And so, to the extent that regulators
3 provide that stability, it's viewed very positively by
4 credit committees.

5 Specifically, with the FERC, statistics to
6 variable rate designs is a very nice quality that we look at
7 what had been longer term contracts that prevailed in the
8 industry were viewed very positively. Of course, that's
9 been shortening up in more recent years and it's been
10 something that's probably lead to some of the deterioration
11 in the credit quality that we've seen. And I guess it's not
12 generally appreciated, but the fact that the FERC gets so
13 involved in the decision-making with regard to whether new
14 pipelines ought to be built or capacity added to existing
15 pipelines actually adds a very good layer of stability to
16 the whole industry. It kind of holds back on some of the
17 exorbitances you see in other industries that go through
18 periods of excess capacity and lower capacity and things
19 like that.

20 The issue of some of the lower-rated pipelines --
21 the ones in the B categories -- really relate to something
22 I think is somewhat unique to S&P. We view the credit
23 quality of any given entity in a comprehensive way, in a
24 consolidate way. The lower credit ratings are really not
25 tied so much to the pipelines themselves as to who their

1 owners are, the issues that came up post-Enron and post-
2 California, the credit crunch that we all experienced in the
3 2000-2001, hit some of the owners of some of the pipelines
4 very hard. That's really the reason why some of the credit
5 ratings are so low for some of the pipelines

6 The trend, in general, even for the stand-alone
7 pipelines has been a little more mild. But, in general, in
8 the same direction a little lower than what historically the
9 pipelines have enjoyed in terms of credit ratings and that's
10 kind of tied to, again, that who owns the pipelines and the
11 corporate structure surrounding the ownership of the
12 pipelines. That was the last kind of issue I wanted to take
13 you through this morning real quickly.

14 The trend has been over time or really where we
15 sit today that very few pipeline projects are just done by a
16 single company 100 percent. We see a lot of project
17 financing -- more structured financing surrounding new
18 pipeline construction, which is kind of complicated, but
19 generally kind of isolates the credit quality of the
20 pipeline itself. That helps deal with some of the issue of
21 who owns it and things like that.

22 Another trend that you see a lot of is joint
23 ventures with two different companies getting together and
24 decide to develop a project. That also is a way of
25 isolating or at least insulating the project somewhat from

1 the financial condition of the owners. And then, as Mr.
2 Walsh's presence here indicates, some of the ownership
3 itself has changed over time and we're seeing a lot more of
4 what I would call purely financial players getting involved
5 and providing the equity -- the ownership in a lot of the
6 projects and things like that, which, from a broad
7 perspective may be a good thing or a bad thing or whatever.
8 Certainly, from a credit standpoint, it's not something that
9 we view very favorably. We view pipeline assets, generally
10 speaking, as being long-lived and we'd like to see owners
11 that have a long-term interest in the assets in general as
12 part of the project structure.

13 That's all I had this morning. I look forward to
14 your questions. Thank you.

15 MR. WRIGHT: We'll go ahead and proceed to the
16 Chairman and Commissioners with questions.

17 CHAIRMAN KELLIHER: I wanted to start with
18 Commissioner Mason and say that I agree with your findings
19 and your recommendations. As we've said a couple of times,
20 the Commission's moving to consider reforms to its gas
21 pricing storage policies with the goal of reducing the
22 volatility of gas prices. But states can act to reduce the
23 expose of consumers -- retail consumers, residential
24 consumers -- to whatever level of volatility there is.

25 I was curious about your survey. If you can

1 identify a couple of states that really have good hedging
2 programs and whether there is some rule-of-thumb in the
3 regions, say, that rely most heavily on gas for heating, do
4 they generally do a good job on hedging or do they generally
5 rely to a larger extent on short-term purchases if you look
6 at, say, New England.

7 COMMISSIONER MASON: It was rather interesting.
8 And, again, my experience, having been on the gas leadership
9 for about four years now, putting on a series of hedging
10 programs which started about 2000, 2001 and then we started
11 doing long-term contract programs shortly thereafter because
12 we found them to be almost both sides of the same coin.
13 But, as far as the hedging goes, I think Kansas has a good
14 program.

15 It's interesting because Kansas, I believe, is a
16 state where the utility agreed to long-term contracts with
17 the Cheyenne Pipeline. I think up to 20. That was an
18 example where -- I hate to give my opinion of what they
19 actually did, but it looks like, again, they're looking at
20 the hedging and the long-term contracts as providing that
21 long-term stability.

22 In Ohio in 2002, shortly after the winter heating
23 period that we had the year before, we issued an order
24 basically saying we'll treat hedging as a part of your fuel
25 costs. It would be reviewed in a prudence standard based on

1 what was best at the time and not again this after-the-fact
2 thinking -- oh gee, it turns out you were wrong type of
3 scenario.

4 But there are other states, and
5 without having a survey in front of me, I would really hate
6 to mislead the Commission. But we'll submit additional
7 information through NARVC to the Commission on the hedging
8 issue.

9 CHAIRMAN KELLIHER: Thanks. I had a question for
10 Mr. Cleary, Mr. Walsh and Mr. Parker.

11 What's the average length of contracts on your
12 systems? How would that compare to, say, 15 years ago?

13 MR. CLEARY: I think if I recall our recent SEC
14 filings they average length for the pipelines in the West
15 are in the three to four year terms. Ten years ago, it
16 might have been five years plus. I would add our new
17 projects -- we're currently doing four expansions across the
18 West -- a total capital of \$600 million, plus we're getting
19 10- to 15-year contracts to support that new capital.

20 CHAIRMAN KELLIHER: What is the key for a new
21 project? Is it the return or the length of the contract
22 that a foundation shipper would agree to?

23 MR. CLEARY: We would wouldn't invest \$600
24 million without knowing we had the security of long-term
25 revenue streams. So it's really the requirements of the

1 pipeline at that certain level of return that this
2 Commission allows. We're not going to invest \$600 million
3 on a three-year contract. It's the term requirements we
4 have and the certainty of return, given the amount
5 investment.

6 MR. PARKER: Across our pipelines, about one-
7 third of our capacity comes up for renewal every year. That
8 means we have about a three-year average contracting.
9 Twenty-four years ago when I started with the company it was
10 probably 10 to 15 years. Obviously, a big shift, as you've
11 seen. Long term projects -- we typically try to get as long
12 term as we can. Of course, you asked what's the IRR long-
13 term. You can run an IRR and assume -- let's say you only
14 have a five-year contract -- that you have a contract and
15 you'll renew it for 15 years. You're making a big risk
16 assumption -- the pipeline is. Pipelines run very long-term
17 economics. If their contracts are very short-term, they've
18 got all the back end risk on the project. So it's kind of a
19 mix of the two. If you analyze what level of risk do I have
20 on the LNG project I talked about here today, we have 20-
21 year contracts and it's really the LNG customers who want
22 long-term contracts. Typically, we have much shorter on
23 other expansion projects.

24 CHAIRMAN KELLIHER: Mr. Walsh?

25 MR. WALSH: Mid-year average life on those

1 contracts remaining is approximately five years. They've
2 just recently had a significant contract renew that's
3 actually much longer. I couldn't guess at the weighed
4 average currently now, unfortunately.

5 CHAIRMAN KELLIHER: I ask that because there is
6 some time a perception that the risk profile of the pipeline
7 sector is unchanged over the past 10 or 15 years and it does
8 seem it has changed. I think we recognize there's a greater
9 need for regulatory certainty here at the Commission to
10 reflect that.

11 Colleagues, do you have questions?

12 COMMISSIONER BROWNELL: I have a couple of
13 questions for Mr. Shipman. I'm a little confused by the
14 several references you made to ownership.

15 Let me start with one. You said that you view,
16 without favor, ownership by -- let's just say Michael's
17 group because they're in it for the short term. But, as
18 long as they are managing the asset appropriately or hire
19 people who do, and it seems counter-intuitive to think
20 they'd invest and somehow run down an asset, why it is that
21 you actually care? Shouldn't it be more of an issue of
22 who's a good asset manager and who's not as oppose to how
23 long they're in it?

24 MR. SHIPMAN: In general, from the credit
25 perspective, we look at equity as being the cushion that's

1 provided to bond holders -- the first amount of risk in a
2 contract or in a project. And, in general, I don't mean to
3 overstate whether -- I think, on average, we're much more
4 comfortable when looking at a project and an owner that has
5 a long-term interest in the asset that has maybe other
6 operations that need the pipeline to integrate with the rest
7 of its system that have a longer term interest.

8 I'm not casting aspersions at all on folks such
9 as Mr. Walsh whether they would run down a system, per say.
10 They do tend to have a shorter timeframe with regard to
11 their investment horizon. And also then have I think, in
12 general, higher return expectations for their own funds than
13 a regulated type of return. Generally speaking, there's a
14 little more leverage employed by financial players that we
15 strive to incorporate into the credit analysis. So they add
16 debts at other levels in order to boost the returns that
17 they need to satisfy their owners.

18 COMMISSIONER BROWNELL: You also referenced
19 earlier you look at ownership and that's something you
20 evaluate. Are you looking at ownership in terms of their
21 track record in operating assets or their exposure in other
22 arenas? I just wasn't sure.

23 MR. SHIPMAN: It's actually both. Certainly, an
24 owner that understands the pipeline industry that runs other
25 pipelines that has a long-term record in the industry is

1 viewed fairly favorably by our credit committee. But more
2 than anything else, if it's 100 percent owned by someone
3 else, the credit quality of that owner will tend to have a
4 lot of impact on what the rating of the pipeline will be.
5 So their own credit profile -- the other kind of businesses
6 they're involved in, the amount of leverage they're
7 employing in other parts of their empire, so to speak, will
8 end up having usually a very direct impact on the credit
9 rating of the pipeline. And I should also stress that I
10 think -- from my perspective, I believe this is somewhat
11 unique to Standard & Poors. Not all the credit-rating
12 agencies tend to look at it in the same way. So there are
13 differences.

14 COMMISSIONER BROWNELL: Let me just ask you about
15 long-term contracts. You probably like them for pipelines.
16 But we frequently hear, both in the electricity sector and
17 the gas sector, that the credit agencies are penalizing
18 people who sign long-term contracts like the LDCs or IOUs.
19 That's a problem. It's a problem in every part of the
20 energy sector. Tell me how we can come to some balance on
21 that issue.

22 MR. SHIPMAN: From a credit standpoint, it's
23 somewhat of a zero sum game, you know.

24 COMMISSIONER BROWNELL: To be sure.

25 MR. SHIPMAN: Someone who's the recipient of a

1 good, long-term contract that guarantees or almost
2 guarantees them a good, long-term supply at a pre-arranged
3 price or something like that is going to be good for them.
4 But, obviously, the party on the other side of that
5 arrangement is taking on quite a bit of risk. I don't know.
6 That's something that the Commission itself has to really
7 decide on. I think the parties themselves will decide on
8 how to allocate those risks -- which parties are more able
9 to accept those risks or mitigate them or earn more at their
10 end because they're willing to accept more risks.

11 I'm not so sure it has to be something that the
12 Commission itself has to opine on. Let the market decide
13 how those risks ought to be allocated.

14 COMMISSIONER BROWNELL: I'm not suggesting that
15 the FERC either has an interest or authority to do anything
16 about that. What I'm suggesting is that as agency that's
17 interested in developing infrastructure, in helping people
18 balance risks we hear a lot about the influence of rating
19 agencies that are having a negative effect towards long-term
20 development.

21 On one side you like those long-term contract.
22 On the other side you don't. It does seem to be having, if
23 you listen to the various representatives of the industry,
24 kind of a disparaging effect and a not very positive effect.
25 I'm going to opine because I'm concerned about it and I

1 think it's something that we need to work through and be
2 discussing frequently. I know it's been an issue for the
3 state commissioners and I know we hear it frequently. It's
4 having an impact and I'm not sure it's a particularly
5 positive one.

6 COMMISSIONER KELLY: Jim, you mentioned a concern
7 that there be a parallel processing of permits by the states
8 consistent with processing by the federal government.

9 MR. CLEARY: Yes.

10 COMMISSIONER KELLY: Is that a big concern? Is
11 it something we should encourage the NARVC Gas Committee to
12 look into?

13 MR. CLEARY: I think, Commissioner Kelly, it is
14 worthwhile when we're talking about getting infrastructure
15 on in a timely basis if the federal agencies all cooperate.
16 But let's say a state environmental permit work doesn't
17 start until the FERC permit is issued I think you just have
18 more delay than is required. We found a general degree of
19 cooperation among the federal agencies and state agencies
20 where we operate, but we've run into problems every now and
21 then. One state doesn't start a SHIPO process, particularly
22 an environmental process until they see U.S. Fish and
23 Wildlife has ruled or FERC has ruled.

24 The more we collapse that, and I think it would
25 be useful to raise that at the NARVC level -- I think it's

1 better for the national energy infrastructure in general.

2 COMMISSIONER KELLY: Thanks.

3 You also raised the complex and sensitive issue
4 about the relationship of Indian tribes and the federal
5 government. I know Congress has historically recognized the
6 sovereignty of Indian tribes and their right to determine to
7 what uses their land is put. Consistent with that, to the
8 extent that tribes do not wish their land to be used for
9 pipeline rights-of-way -- for example, by pricing their land
10 higher than the cost of the next best alternative -- that's
11 been their right. I understand Congress is looking at that.
12 I think FERC must leave to Congress any decision to change
13 that historic relationship and that right.

14 Scott, FERC currently has a policy in place that
15 allows for market-based rates for storage owners without
16 market power. Do you think that policy is appropriate going
17 forward? If not, how do you think we should change it?

18 MR. PARKER: I would encourage the FERC to follow
19 the recent legislation on storage. Even if the test isn't
20 met, proceed forward with market-based rates. As you heard,
21 my focus is don't forget about the existing storage fields
22 that could expand. And also play in that same -- because
23 those will come on quicker than a brand new greenfield
24 development. The reason is easy. A lot of the
25 infrastructure that may be needed are lands already bought -

1 - things like that. I think the FERC needs to move forward
2 with the recent legislation and apply it to both new
3 greenfield and existing expansions.

4 COMMISSIONER KELLY: As I understand that
5 legislation, what it gives FERC the right to do is to allow
6 for market-based rates for storage even if the owner has
7 market power if we determine that it's in the public
8 interest to do so. Traditionally, we do not allow market-
9 based rate authority for any entity that we regulate to
10 exist if there is market power. So I'd like to hear from
11 you as to what kind of situation would present itself where
12 it would be in the public interest to do that?

13 MR. PARKER: I guess I would fall back to what's
14 different between storage in today's environment and LNG.
15 The FERC looked at an LNG plant and said let's let it go
16 because the market needs it. This country needs it and I
17 would say the same status with storage today. I'm not
18 saying change the situation for the current storage that's
19 in the market. What I'm saying is we're not going to get
20 storage development unless we change the paradigm, just like
21 the LNG where you changed the paradigm. I say there's
22 enough competition in the market. And, at the end of the
23 day, the customers today are going to be better off if we
24 move forward with market-based storage and it gets developed
25 than if we don't move forward and we continue to be short on

1 storage capacity.

2 COMMISSIONER KELLY: I would agree with you that
3 where there is competition, and therefore there is no market
4 power, that it's clear that the owner should have market-
5 based rates. What concerns me is where there is market
6 power. And LNG is different than storage because it
7 competes with other sources of gas and gas is deregulated in
8 this country and its competitive.

9 If potential users of storage don't want to pay
10 for it today at market prices, then do they need it? And,
11 if they don't need it, why should we cause it to be
12 constructed? And, if they aren't going to pay for it at
13 market-based rates, why would we allow the entity to charge
14 at market-based rates?

15 MR. PARKER: Because the fundamental philosophy,
16 and I guess twofold, I would say that storage is very
17 competitive across the whole marketplace today because it
18 basically feeds into the grid. So whether you're buying
19 storage in Texas, Chicago, New York -- it competes because
20 it competes with the supply.

21 Why would you do it? I think we've heard from a
22 lot of presenters today that storage is very important and
23 they're very nervous about storage. So you can stand right
24 now and say we won't make a change but we'll continue to be
25 constricted and we may run into future problems. You're

1 right. The marketplace today is not willing to pay the
2 rates because of the high cost of gas to develop these
3 storage fields. So the entities that would assume the risk,
4 and that would be companies like Kinder Morgan -- we would
5 say we'll go out and spend the money. We'll buy the cushion
6 gas. We'll develop the storage field and we'll get a low
7 rate right now because that's what the market's willing to
8 bear. But, when the market needs it, we'll get more of a
9 market-based rate. So, at the end of the day, we'll make a
10 reasonable return on our investment. If you said there's no
11 market-based rates, then what you'd be asking the developers
12 to do is to take a low rate or not sell their storage now
13 and to get a rate that, in total, over the life of the
14 project wouldn't give them a reasonable return and no
15 investment entity is going to do that.

16 COMMISSIONER KELLY: Why not wait until the
17 market value is consistent with other alternatives to build
18 it?

19 MR. PARKER: Like there is on pipeline lines,
20 there's a dramatic lead time on storage. It's not just
21 finding the right location. If it's salt, you have to de-
22 brine. It can take years, depending on your capacity
23 output, you know. Ordering compression right now, you might
24 have a year, a year and a half lead time on compression
25 along. And storage fields require compression, not only for

1 injection but for withdrawal late session. It's the lead
2 time of putting all the asset in place to actually provide
3 the service. If you wait too long, we'll be in a position
4 of reaction. And sure storage will get built, you know,
5 three to five years from now. It will just be in a much
6 tighter market with higher prices.

7 COMMISSIONER KELLY: I hope it won't be higher
8 prices than today's high prices.

9 MR. PARKER: I hope so, too.

10 COMMISSIONER KELLY: Thank you.

11 CHAIRMAN KELLIHER: Does staff have any truly
12 excellent questions?

13 (Laughter.)

14 MR. MULNER: I've got one I'd like to ask,
15 Commissioner Mason.

16 Was one of your point was that the Commission
17 should revisit its policy for pricing different pipeline
18 services? Could you expand on that a little bit and tell us
19 what you're contemplating here?

20 COMMISSIONER MASON: I was reporting about -- one
21 of the comments that came in about our notion of inquiry.
22 It was not so much from the state regulatory review
23 standpoint, but the FERC should. I'll forward the report.
24 I think we're actually going to release later on today to
25 the Commissioners and to you.

1 I also want to take a moment to say, going back
2 to the issue of sighting of the pipelines, you had mentioned
3 that IOGC and NARVC did them in a study in 2000. We
4 actually came out with what we think would be a good
5 template for expediting sighting. So I will also forward
6 that report. I actually gave that at an INGAA Foundation
7 Board earlier this year. You might even get a nice
8 powerpoint that came from the study.

9 COMMISSIONER BROWNELL: We love powerpoints.

10 MR. WRIGHT: I had a question.

11 You talked about storage and the benefits. I
12 know Mr. Walsh and Mr. Parker have spoke to that. I'm
13 wondering how problematic it gets to keep developing storage
14 in supply areas? I'm thinking specifically of the Gulf
15 region. This goes to developing LNG terminals in the Gulf
16 region as well when you have demand in the northeast. I'm
17 not hearing kind of a concurrent development of pipeline
18 capacity going to the northeast. Wouldn't it be beneficial
19 to try to develop more storage in market areas and also site
20 LNG terminals in those market areas?

21 MR. WALSH: I think, unqualified, the answer is
22 yes to both those points. Market-based storage, whether it
23 be LNG or more traditional is more absolutely a fundamental
24 part of the infrastructure delivering to demand up in the
25 northeast. We had a very good experience with our

1 investment in the Stagecoach Project, which was in the
2 market area serving the New York and New England markets.
3 The issues we face in the Northeast are fundamental to any
4 development project. A large-scale infrastructure project
5 up there, dense demographics -- a lot of people who don't
6 necessarily want these kinds of projects in their backyards.
7 So our experience has been somewhat along what Mr. Parker
8 was alluding to -- the lead time required to get a project
9 from conception to commercial operation can be significant.

10 With that said, I think the market-based rates
11 that you're able to generate as an investor in those types
12 of projects certainly is such that there are people who are
13 interested in making those types of investments. I think
14 the answer is, yes, I do think that storage is critical to
15 filling that piece of the natural gas supply chain in that
16 part of the world because I don't know that there's any
17 major long-haul pipelines planned to bring additional
18 capacity up to that part of the world, certainly from the
19 Gulf and possibly from Canada and points west. So my answer
20 is storage is critical.

21 MR. WRIGHT: Storage in the market or in the
22 supply area? Doesn't that come to a critical mass
23 eventually when a lot of that storage capacity goes in
24 pipelines currently who are constricted in the winter? Can
25 the pipelines take that storage capacity away if you keep

1 expanding down there?

2 MR. WALSH: I'm not sure I understand the
3 question.

4 MR. WRIGHT: If you keep expanding storage in
5 supply areas like the Gulf, can the traditional pipes,
6 without expansion, keep taking that to the market?

7 MR. WALSH: Frankly, I'm not in a position to
8 answer.

9 MR. PARKER: It's pretty basic. The through-put
10 of the pipeline is the through-put of the pipeline. Unless
11 you expand the pipeline's through-put, you're not going to
12 take any more gas anywhere. So, no, unless the through-put
13 is expanded. But, having said that, storage in the field
14 zones really deflects outages like we were talking about
15 earlier today. There's a certain amount of offshore gas
16 that isn't coming out if we had more storage. It had gas in
17 it previous to this and it would be used right now to fill
18 those voids. So I think whether it's in the field or market
19 it's a good thing. LNG is going to cause very flexible,
20 high deliverable storage, salt-type storage to be developed
21 in the field simply because an LNG ship may not come in
22 every day. It may get diverted. It may be delayed. So
23 they need the ability to be able to sell supplies long term
24 under a commitment and use storage to fill that.

25 Market storage is more difficult to develop.

1 I'll talk about my marketplace in Chicago. Aquifer storage
2 is basically the geology that's in the Chicago region. It's
3 much more difficult to develop an aquifer storage field.
4 It's larger, more expensive. It requires more base gas and
5 they're difficult to locate in populated areas. So you find
6 more field storage being developed, but it clearly doesn't
7 increase the through-put. I would say projects like our
8 Akis Project all the way to Ohio does have a benefit in
9 moving bottlenecks. Further east will there still be
10 bottlenecks? Absolutely. That will just take the work,
11 like Michael talked about, of trying to build pipelines in
12 dense regions along the east coast.

13 MR. CUPINA: Commission Mason, I just want to get
14 to the reasons for -- that the PUCs prefer short-term
15 contracts. I'm not sure if it's so much not wanting the
16 customer to get stuck with expensive contracts over the long
17 term or is it the unbundling and some of the distributors
18 leaving the merchant business, at least for a portion of
19 their loan? What's driving this policy to keep the
20 contracts short? And, if you would, can you distinguish
21 between short- and long-term contracts for pipeline capacity
22 versus for the commodity because there's no reason why you
23 can't contract long term for pipeline capacity and shop for
24 the commodity separately.

25 COMMISSIONER MASON: Thank you very much for that

1 question. Whenever you look at a problem, I think you have
2 to break it down into various fundamentals. The Commission
3 staff basically formulated a policy in the '80s when you had
4 two primary fundamentals that took place that affected
5 dramatically the price of gas and one of those, of course,
6 was the movement of the federal government towards
7 unbundling. The second was, in fact, that gas bubble we had
8 from a surplus or -- I hate to use that word "surplus"
9 because an economist is going to have an argument with that.
10 But we had so much production in the '80s you had that gas
11 bubble. The gas price dropped.

12 At that point there was political pressure where
13 the regulatory staffs were putting pressure, bringing
14 lawsuits and also having these imprudent findings against
15 gas companies who, up to that point, had been viewed as
16 being very prudent and having just sort of stepped, perhaps,
17 5 percent per year increases or whatever, in their
18 contracts. But the '80s left a bad taste in everybody's
19 mouth that they weren't going to go along again. They were
20 going to stay short.

21 Even though the fundamentals have changed and
22 unbundling has taken effect, and we clearly have not seen
23 anything that's going to lead one to believe there's going
24 to be a surplus of gas in the marketplace, even though those
25 fundamentals have changed I think the underlying theories

1 have stayed in place only because they've never been
2 challenged enough to make a change.

3 I do believe now you're starting to see people
4 challenge those fundamentals and come to a new realization
5 that we need to change our policy approach. But I also want
6 to throw in Commissioner Anthony of Oklahoma -- the
7 Honorable Bob Anthony always makes a good point, also. One
8 of the reason why we need more infrastructure goes back to
9 the reliability in the post-911 type of scenario we're in.
10 We need to make sure, not only do you have competition on
11 supply, but you really need to have reliability, and to some
12 degree redundancy of supply, if possible.

13 MR. CARLSON: Mr. Cleary, Mr. Walsh and Mr.
14 Parker, you've all talked about long-term contracts for new
15 construction and you've talked about 10- to 15-year
16 contracts or even longer. Yet, for storage you don't seem
17 to be able to generate those kind of contracts. What's so
18 different about pipeline capacity and storage capacity that
19 doesn't allow you to get long-term contracts? And,
20 secondly, I guess for Mr. Parker who said it's so much
21 cheaper to expand existing fields, what's preventing an
22 expansion under current circumstances as opposed to having
23 to rely on market-based rates to further develop storage?

24 MR. PARKER: I'll go first since I'm the two-
25 partner. Last first. I guess it's the answer I gave where

1 even if you filed an incremental project you aren't going to
2 be able to achieve those rates. The incremental rate is
3 going to be very high. You aren't going to be able to
4 achieve those rates in the short term, although market rates
5 may pass it up in the long term. So it's the ability to
6 capture the market rates more towards the end of the life
7 cycle than at the beginning. Right now, if you built it,
8 you would simply not sell it or not be able to achieve the
9 rates even under an incrementally-priced project.

10 The first question I'm sorry was?

11 MR. CARLSON: What's so different between --

12 MR. PARKER: We did long-term contracts on
13 storage expansion, also. Not every pipeline project that we
14 do has even 10-year contracts. I think if you look at the
15 project -- you look at your risk level of recontracting,
16 things like that. But any significant investment -- any
17 company, any investor is going to want as long a term a
18 contract as they can.

19 MR. WALSH: Our experience has been somewhat
20 similar to that. I think it's a factor of two things. One
21 is just the volume of capital that's required to develop the
22 storage project is vastly -- I wouldn't say insignificant
23 but it's much, much less than developing a large-scale
24 pipeline project. The reliance you have on a given volume
25 storage facility on firm contracts and long-dated contracts

1 for that storage capacity is less. And our experience was
2 we were able to get long-dated contracts for a portion of
3 the capacity. That provides you with enough revenue
4 backstop so folks like Mr. Shipman and our lenders can get
5 comfortable that the project is going to sustain itself
6 operational.

7 What we look to as equity investors is market-
8 based rates and shorter term contracts and how you optimize
9 that non-contracted capacity becomes the opportunity to
10 generate an equity return. It's somewhat of an hybrid
11 whereas a longer, regulated pipeline you've really got a
12 maximum rate of return you're permitted. So, in exchange
13 for that kind of constraint on your return, you definitely
14 look to drive that risk component as long as possible, which
15 is where long-term contracts come in.

16 MR. CLEARY: The four projects that I used as
17 examples are all pipeline projects and we do have long-term
18 contracts. We don't have any current projects that are
19 either under construction or are recently in service like we
20 do with pipelines on the storage side. We are in early days
21 of developing storage in the Southwest. If those projects
22 go forward, I would expect us to have long-term contracts
23 for those as well.

24 CHAIRMAN KELLIHER: Thank you very much.

25 Can we have the next panel come up?

1 (Pause.)

2 MR. WRIGHT: On our third panel, again, Martha
3 Wyrsh will be speaking. Joining her is Larry Bickle,
4 Managing Director; Director LLC James Wilson, a principal at
5 LECG; LLC Richard Smead, a director at Navigant Consulting,
6 Inc.; Alex Strawn, chairman of Process Gas Consumers Group;
7 Sam Brothwell, Director, Equity Research, Electric & Gas
8 Utilities at Wachovia and Michael Gildea of Consolation
9 General on behalf of the Electric Power Supply Association.

10 Ms. Wyrsh?

11 MS. WYRSCH: Thank you. Thanks for the
12 opportunity to speak a second time today. When Jeff called
13 to say would you talk about Katrina, that was something I
14 knew a lot about. This panel I'm speaking on behalf of
15 INGAA, talking about many issues that have already been
16 discussed today. Let me see if I can quickly make five
17 points.

18 One thing that struck me, as we've been listening
19 to these discussions, is the creativity and strong focus and
20 interest on the part of all the different parties in our
21 industry to making sure we have a strong, vibrant industry.
22 That's been quite heartening for me.

23 You know of the regulatory policies and processes
24 and procedures that the Federal Energy Regulatory Commission
25 has put in place has helped spur the kind of development

1 that we have seen in the pipeline industries. I think all
2 of you have heard the statistics. We've invested nearly \$20
3 billion in new infrastructure over the last decade. A
4 recent INGAA report estimates that 26,000 miles of new
5 pipeline is needed to meet the infrastructure demands for
6 the market. That includes 10,000 miles of pipeline at a
7 projected cost of \$16 billion simply to replace existing
8 pipelines. This is a very significant and serious
9 investment, but we're ready to make it.

10 We need the ability to attract the kind of
11 capital that will be required to build these systems. So
12 I'd like to propose five different suggestions and
13 recommendations to the Commission that we hope that you'll
14 consider as we move forward. The first has to do with
15 stable, long-term contracts. We've talked a lot about long-
16 term contracts. I won't spend too much time on this, but we
17 do believe that by encouraging stable, longer term
18 contractual relations the Commission will foster an
19 environment favorable to investment in both new and existing
20 facilities. The long-term contracts provide cheap insurance
21 against harmful price spikes and also help pipeline
22 companies recover financial investments and infrastructure.
23 This important point was emphasized by Commission Mason in
24 his remarks about the NARVC study, and I won't go into that.
25 But INGAA did participate and we felt that was an important

1 piece of work being done to encourage long-term contracting.

2 The next point has to do with the Commission
3 helping to expedite post-certificate conditions as companies
4 are looking to build projects. The Commission as done a
5 very good job over the last decade in expediting its own
6 certification process. Pipelines must, however, comply with
7 other federal statutes and must coordinate with state
8 authorities. You've heard some of this discussion as well.
9 Today, many of the most serious delays occur after the
10 Commission has commissioned a project. Under the Energy
11 Policy Act, Congress specifically made FERC the lead agency
12 to coordinate and set the schedule for all the federal
13 authorizations pursuant to NEPA. That was a critically
14 important step from our perspective because it should ensure
15 that we see faster construction of pipeline and storage
16 facilities while we continue to observe our environmental
17 rules and pay attention to the impact that our projects have
18 on our environment.

19 Again, we would recommend the Commission continue
20 to remain focused on projects after those certificates have
21 been issued and help us by playing an important role in
22 encouraging infrastructure development through that
23 permitting process.

24 The third item has to do with greater price
25 flexibility. Again, we've talked a bit about price

1 flexibility today as well. But let me give you a couple of
2 examples. Current rate policies -- under price
3 interruptible transportation and artificially cap released
4 capacity at below market prices. Removal of a price cap on
5 IT and the capacity release cap would improve market
6 efficiency. It would mitigate adverse effects of the
7 current cost based-rate designs, add to competition and
8 transparency and remove obstacles to long-term capacity
9 contracting. We believe this would go a long way toward
10 encouraging longer term, more stable contractual
11 arrangements. If shippers are allowed to defray some of
12 their costs by receiving more revenue from capacity release
13 transactions during peak periods. Long term contracts will
14 be more attractive and will ultimately spur more investment.

15 Another example of where greater price
16 flexibility would encourage more infrastructure investment
17 is in contracting with anchor shippers. You heard Scott
18 talk about this quite a bit, but I would want to emphasize
19 that we do believe that the Commission can promote greater
20 infrastructure development by providing flexibility for
21 developers to negotiate firm contracts earlier in the
22 development process. When a shipper is willing to sign up
23 for capacity prior to a pipeline being developed as that
24 project is being sized, that guidance provides for us a very
25 realistic view of the size and the need for that projects.

1 Pipelines and anchor shippers should be protected against
2 reallocations that result in open seasons. Without the kind
3 of shipper commitment that I'm talking about, project
4 development is less attractive and more risky.

5 The third example that I cite as an example is
6 that greater price flexibility would encourage
7 infrastructure development if we had index-based negotiated
8 rates. In our view, the Commission should reconsider its
9 policy prohibiting the use of index-based negotiated rates
10 and allow those index-based negotiated rates to promote
11 flexibility and assure those who enter into long-term
12 contracts that the risk allocations will remain proportional
13 over time.

14 The fourth point I would like to make has to do
15 with the policy regarding incremental rates. There is
16 currently a bias in favor of incremental rates. Often an
17 expansion or extension of a facility benefits an entire
18 market, not just the new shipper. By reducing commodity
19 price and price volatility in the entire market, we think
20 new projects will be built more quickly. The inequity of
21 having only new shippers bear the cost of facilities
22 discourages shippers for signing up and paying for
23 incremental capacity. This, in turn, dampens and deters
24 investment. The Commission should focus on the broader
25 market benefits when it considers whether or not to roll in

1 rates.

2 Finally, we believe the Commission should remain
3 committed to a light-handed regulation. The linkage between
4 light-handed regulation and capital attraction, we believe,
5 is clear and we bring this up because we have seen some
6 signs that FERC maybe considering a shift away from this
7 approach when a pipeline commits capital for a greenfield
8 project based on a given rate of return. Over a period of
9 time, it needs to be certain requirements like cost and
10 revenue studies or a Section 5 rate review or other
11 regulatory hooks that are a part of the permit will not
12 undercut this guarantee. This practice introduces a level
13 of uncertainty and risk to an investment that is difficult
14 for a company to make.

15 As part of this commitment to light-handed
16 regulation, the Commission should also revisit its
17 guidelines for market-based rates for both storage and
18 transportation. We talked about that a good bit today as
19 well. We do believe that allowing market forces to send
20 timely priced signals or encourage infrastructure
21 development in storage and in transmission our revised
22 market-based rates policy should recognize changes over the
23 last decade and the transparency of the marketplace as well
24 as changes in entities that actually control capacity. We
25 do hope these suggestions, all five of them, are the basis

1 for a healthy dialogue and we look forward to having that
2 dialogue with you.

3 MR. WRIGHT: Thank you, Ms. Wyrsh.

4 Mr. Bickle?

5 MR. BICKLE: Thank you. Larry Bickle, one of the
6 managing directors of Haddington Ventures. I'd like to
7 thank the Commissioners and the Commission for allowing me
8 to speak here today. You can think of Haddington Ventures
9 as providing the venture capital for infrastructure
10 development. For example, we provided the initial equity
11 and development of the Moss Bluff storage project and the
12 Egan storage project, which were ultimately sold to Duke.
13 We provided the venture capital and the initial development
14 of the Lodi gas storage facility in California, which Mr.
15 Wilson is the beneficiary of.

16 We also provided the equity capital for several
17 gathering and processing systems, notably the Bear Paw
18 system, which was one of the larger coal-bed methane
19 gathering projects, which we sold to Northern Border. When
20 you think of us, you need to think of someone who -- we do
21 step up and take market risks. We developed all of these
22 storage projects without a single contract. The reason we
23 were able to do that is that we had relatively high
24 confidence that we could predict the value of storage in the
25 grid. So that's just by way of information.

1 I would like to compliment the Commission. I
2 think in the last 10 years the Commission had made
3 extraordinary process in getting projects through quickly.
4 I would echo what my colleague Martha said about staying
5 with the project and helping us get through the other
6 agencies after the certificate is awarded. The problem
7 being that, for us, time is the critical factor. In order
8 to take the high risk, we need high returns and the thing
9 that mitigates our returns is delay. So anything that can
10 take out delay helps us.

11 With respect to gas storage, I would say probably
12 the most important thing that the Commission can do is to
13 continue to encourage independent developers. Pipelines are
14 developing their own storage. That's certainly a proper
15 thing to do. But, if you think about it, what a pipeline
16 does and properly so is that they locate the storage to
17 optimize the flow in their single pipeline. What the
18 independent storage developers do is they locate their
19 storage where it benefits, perhaps not the maximum efficiency
20 on an individual pipeline, but it benefits the whole grid.
21 It connects several pipelines together and allows gas to go
22 from where its available to where it's needed. And whether
23 it's the market competition or whether it's for reliability,
24 these interconnects that make the grid more robust are very
25 important and they're developed primarily by independent

1 storage developers. So I would encourage you to think of
2 that independent storage developer somewhat differently than
3 you do pipeline storage developers.

4 Again, our role is in funding these developers,
5 but I think it's important to the country that we have them
6 and that we have a robust, independent development
7 capability. And I think, along those lines, probably the
8 most important thing to do is to just examine the tariff
9 structures -- the pipeline segmentation to be sure that an
10 independent storage project on each pipeline is not
11 disadvantaged as compared to the pipeline's own storage
12 projects. Again, I would commend the Commission on doing
13 that historically. It's just an area where constant
14 vigilance, I think, is needed.

15 With respect to LNG terminals, we're currently
16 funding one LNG terminal for development by an independent
17 developer. And I would say probably the most important
18 thing, and this was prior to Katrina and Rita, we recognized
19 that you can't have all your LNG terminals lumped together
20 in one or two places in Louisiana. If you think about the
21 way the pipeline infrastructure developed coming out of the
22 Gulf of Mexico, you had sort of ratable input over a very
23 wide range of the Gulf Coast. And, if you bring LNG
24 terminals all into Sabine Pass, what happens is you've
25 slowed the system on the downstream side so that it's hard

1 to get the gas away. You actually do some very serious
2 damage to both the pricing and the ability to do ticks. So
3 you have both the commodity price and volumetric risk as a
4 shipper. I don't expect the FERC to tell people where they
5 should put the terminals, but I think you can use your
6 educational ability here to help both shippers and long-term
7 customers understand the distributed network of LNG
8 terminals is much more valuable to the country as a whole
9 and I think ultimately the market would get there. And I
10 don't think you need to use any regulatory power, just
11 educational power.

12 Also, with respect to the LNG terminals, again,
13 speaking as a financier of it, the issue that we see that we
14 would like to commend the Commission on working with the
15 Coast Guard to bring the Coast Guard in earlier. I know
16 that you're also continuing to work with bringing the Corps
17 of Engineers in earlier. I think both of those are
18 extremely important. These LNG terminals depend very
19 heavily on the water-borne or upstream side of them as to
20 what the transportation capacity is. So you need to be
21 looking, not only at the downstream pipeline capacity, but
22 also at the upstream shipping capacity much earlier in the
23 process.

24 I would also recommend that the FERC Commission
25 undertake or commission with the Department of Energy or

1 NOAA a much more serious study of the open rack vaporization
2 system. That's an opportunity, I think, to add a couple of
3 percent to the U.S. gas supply that comes in through LNG,
4 which will eventually be very material without any
5 environmental impact. In fact, as a sport fisherman along
6 the Gulf Coast, I would say the impacts would be very
7 beneficial.

8 That concludes my thoughts on gas storage and
9 LNG. I would like to make just one antidotal observation.
10 We've heard a lot of talk today about, essentially light-
11 handed regulation and obviously coming out of the financial
12 community. I'm very much in favor of markets and light-
13 handed regulation. However, I'm seeing some trends that
14 disturb me and these are only antidotal. I would just ask
15 the Commission to perhaps consider them and ask the staff to
16 examine some of these issues.

17 I'm a director of a New York Stock Exchange
18 production company -- a company that produces oil and gas.
19 If I look back five years to the Year 2000, whenever we
20 would develop a new field or drill a new exploratory well,
21 we would typically have two to three companies competing to
22 install the gathering system. Once we transported the gas
23 through the gathering system to a custody transfer point on
24 the pipeline, we would typically have four to six buyers of
25 that gas -- potential buyers bidding for the gas. Today, in

1 all cases, we operate almost 1700 wells. There's only a
2 single gatherer and it's the pipeline affiliate and there's
3 only a single purchaser, and it's the pipeline affiliate.

4 Now I'm not suggesting there's abuse there. In
5 fact, I've been surprised at how well the system has worked.
6 But I do think there is potential for abuse and I think the
7 Commission should keep a vigilant attitude toward the
8 pipeline affiliates. Again, I think they've behaved very
9 admirably and I have no specific complaints other than it's
10 just a situation that becomes ripe for exploitation if you
11 get the wrong person at the wrong place at the wrong time.

12 That concludes my comments. Thank you very much.

13 MR. WRIGHT: Thank you, Mr. Bickle.

14 Mr. Wilson, you're up next.

15 MR. WILSON: Thank you. Good afternoon and
16 thanks for the opportunity. I'm an economist with 20 years
17 experience consulting to the natural gas and electric power
18 industry. I just have a few comments on policies to
19 encourage infrastructure development.

20 Mr. Parker and Ms. Wyrsh both put out a list of
21 policies to help pipelines attract and reach agreement with
22 foundation shippers and I think there are a lot of good
23 ideas in there. There is also the idea of perhaps expanded
24 use of rolled in rates, taking into account the public
25 benefits of a pipeline. I would very much encourage you not

1 to go in that direction. In your policy statements in 1995
2 and 1999, you set out the right policy of incremental rates
3 for the right reason, because to raise existing shippers
4 rates for an expansion that they don't need and doesn't
5 serve them would be unfair.

6 I think you should also consider the impact that
7 broader use of rolled in rates would have on those
8 foundation shippers that we've been talking about. They
9 would be looking at a higher level of risk coming into a
10 pipeline as a foundation shipper if they didn't know what
11 the cost of an expansion was going to be and if they were
12 going to be asked to pay for it. I would recommend that you
13 didn't go that direction.

14 There were also recommendations about more
15 flexible pricing or a cap on interruptible transportation
16 and capacity release. I think those would be helpful
17 policies. But then I would set one next to that that I
18 would not recommend and that is that there has also been
19 suggestions that you might want to try to impose some sort
20 of gas contracting requirement on electric generators. I
21 think that's a very bad idea. I think the right approach
22 is, within the electric market, if you're a generator and
23 you're providing a capacity product or you're under some
24 obligations, if those obligations have the right
25 consequences for not having the gas when you need it, that

1 will encourage the electric generator to make appropriate
2 arrangements for their gas supply. In many cases, those
3 commercial arrangements are very complex with marketers and
4 a simple requirement to have a firm contract I think would
5 not be very efficient.

6 Questions also came up about storage, market-
7 based rates and possible storage market power, which was on
8 the agenda from previous years, but I didn't think was on
9 this year. I think at this point we don't have a very good
10 understanding of what the exercise of market power might
11 look like by a storage facility and I don't think we have a
12 very good approach right now. I think your current screens
13 for evaluating storage market power are not very accurate
14 and don't give you a very good picture.

15 So perhaps at some time in the future when you
16 have a certificate application or a rate case for market-
17 based rates, perhaps an intervenor will come in and make an
18 impressive case that a storage facility could exercise
19 market power. I doubt it, because storage competes with
20 pipeline capacity, flowing gas supply, pipeline services
21 such as park and loan. They offer a variety of services. I
22 don't think there's a very good case in very many instances
23 you're going to find that a storage facility could exercise
24 significant market power. I don't think you have to worry
25 about that one until such time as somebody actually puts a

1 case before you.

2 That concludes my comments. Again, thanks for
3 the opportunity to speak.

4 MR. WRIGHT: Thank you, Mr. Wilson.

5 Mr. Smead?

6 MR. SMEAD: Thank you, Mr. Chairman and
7 Commissioners. You've heard from INGAA. You've heard from
8 NGSA. I'm speaking for INGAA and NGSA together. I think
9 I'm the first person in history who got to say that.

10 (Laughter.)

11 MR. SMEAD: About 18 months ago -- actually, at
12 BP North American Gas and Power's behest, an effort began
13 which I did to review the Commission's entire review process
14 as it affected infrastructure development, certainly, these
15 two segments of the industry more than the physical ability
16 to get things away. We went through a very long extensive
17 analysis and review and research and dialogue involving the
18 certificate approval process at the Commission.

19 I can say that we bore out, through real external
20 independent review, what everybody said. Mark Robinson's
21 shop does an outstanding job. They basically created a
22 system where from filing to order there are no gaps. There
23 are no statutory requirements that are overlooked. There
24 are no timing gaps either. Nothing is sort of sitting there
25 lying fallow. The major project timelines, as Jim Cleary

1 noted with Cheyenne Plains, major project timelines are
2 typically falling below the target that was established by
3 the National Petroleum Council of one year in their 2003
4 report. Now, of course, under the Commission's policies,
5 there is some pre-filing time to add to that to look at.
6 But, basically, they do a really good job.

7 What we were trying to do was to find regulatory
8 changes that might be relevant to improving the ability to
9 build infrastructure. Ultimately, the consensus, collegial
10 process we went through among all the companies in both of
11 these very large trade associations -- throwing ideas
12 around, kicking them around trying to avoid anything that
13 could run the risk of undue discrimination or anything like
14 that. We came up with basically five proposals. Four of
15 them have to do with the Commission's blanket rules.

16 The basic premise that we arrived at was that in
17 the pre-certificate process the project formulation process
18 where people signed contracts that's been talked about so
19 much today -- but there are two factors, to some extent,
20 under the control of the Commission that are extremely
21 valuable during that phase -- speed and certainty.
22 Certainty when a pipeline commits to build something. The
23 certainty that it will get to build it is awfully important.

24 If it's a small project that could arguably fit
25 under self-implementing blanket or prior notice rules, that

1 certainty is that much greater. Allowing the pipeline and
2 the shipper to reach agreement that much more quickly
3 because there's not the uncertainty of a future certificate
4 proceeding. So we proposed or we are proposing -- and I
5 shouldn't say that the intent is to violate the conditions
6 for a rulemaking in the near future, articulating each one
7 of these in much greater depth than we're going to do today.
8 We are intending to propose removing or adjusting three of
9 the exclusions from the Commission's blanket certificate
10 rules.

11 One is the exclusion for main line capacity
12 expansions where, for instance, compression or an adjustment
13 to align or something on a main line within the dollar
14 limits and other restrictions of the blanket rules can
15 increase the capacity of the main line. We believe it would
16 be good policy to allow that. There are a number of aspects
17 of it that one has to be concerned about. Obviously, the
18 completely non-discriminatory dedication of that capacity to
19 shippers is very important. That would happen under the
20 existing transparent post and bid rules on electronic
21 bulletin boards. The rate treatment on pricing new capacity
22 at existing tariff rates, which would be the presumptive
23 rule now should work fine. A pipeline is not going to build
24 the thing unless that covers the cost.

25 In any event, holding a small easy expansions

1 with minimum environmental impact to go to a full
2 certificate case when they could actually increase the main
3 line capacity of the nation's infrastructure, we believe, is
4 an artifact of an earlier era. Similarly, LNG take-away
5 laterals. Once LNG is re-gasified, it's just natural gas.
6 Any supply lateral on any pipeline in the industry can be
7 built under that pipeline's blanket certificate if it meets
8 the other criteria of the blanket rules. There's an
9 explicit prohibition if that piece of pipe is for LNG take-
10 away apparently. But I think the Commission has stretched
11 that in the past a little bit and said we're really worried
12 about the terminal. But we think it should be clear once a
13 blanket certificate is in place, if modifications or
14 expansions to the pipe infrastructure downstream of the
15 plant that carries the gas away could be made under a
16 blanket otherwise, they should be able to.

17 Third, minor adjustments to
18 storage fields that could increase deliverability or
19 capacity are presently prohibited. We think this will take
20 more examination honestly because there are concerns that
21 the Commission would legitimately have to keep this
22 contained to make sure it didn't cause any physical problems
23 for the field. But it's an area that we believe should be
24 reviewed to allow -- if there is still some low-hanging
25 fruit out there, to be able to add a little capacity to

1 existing fields and to be able to do it quickly.

2 Fourth, the dollar limits themselves under the
3 blanket rules -- they're 10-year-old, but inflation adjusted
4 each year. And we have a concern that changes in
5 environment landowner engineering requirements -- a variety
6 of things -- may have caused the same kind of project that
7 was intended 10 years to fit under the blanket rules no
8 longer fit under it, even with inflation adjustments. So
9 the pipelines would commit to participate in a process to
10 reexamine that to see whether the same kinds of projects
11 that could have been built under the blanket rules 10 years
12 ago still could. If not, whether there should be
13 adjustments to the dollar limits.

14 Last, and probably most important because it
15 address the same large project, foundation shipper issues
16 that have been discussed. We define foundation shippers a
17 little bit differently. I think what's been talked about so
18 far is foundation shippers in a large project. It sounds
19 more like what the Commission called an "anchor shipper" in
20 the Alaskan order. The big guys that made the project
21 possible who privately negotiated, to some extent, and then
22 need the guarantee of capacity that they negotiated for.

23 Conversely, in the area of rates though, quite
24 often it is worthwhile and very effective for a pipeline to
25 give rate benefits to early committers to the project who

1 create part of the critical mass that allows the project to
2 go forward. If there is a risk that that same rate benefit
3 will be given to later shippers who sat on the sidelines, it
4 creates a big disincentive for anybody to sign up. So we
5 believe that those anchor shippers and anybody else who
6 signs up through an open seasons through the normal formal
7 processes up to the deadline, usually the end of the open
8 season, where the pipeline decides to go forward or not go
9 forward -- anybody who forms part of that critical mass
10 should be able to get a rate deal different than subsequent
11 shippers without it being deemed undue discrimination.

12 It may not be necessary to give it to them, but,
13 if it does happen, then it would help very much in the
14 contracting process to have that certainty through a
15 statement of policy or rule that it was not per say undue
16 discrimination to treat the original shippers differently
17 than the ones who filled up the empty capacity after that
18 when the pipeline was going forward. There's a tremendous
19 incentive. It's happened on many pipeline projects for all
20 the players to sit on the sidelines waiting for the other
21 guys to sign up. It happened with Kern River. It happened
22 coming out of the Rockies to the East for years and anything
23 that can be done to encourage the people who really need the
24 capacity to step up early ought to be done.

25 As I say, we will be filing, as far as I know, a

1 full-blown petition for rulemaking on these various points.
2 And I've got to say that the progress that was made and the
3 very positive aspect of the focused collegial discussion
4 between producers and pipelines over policy issues that
5 could really help the industry, going on for many months, I
6 think was one of the most positive developments we've had in
7 a while in the relationship between the sectors.

8 That concludes my comments. Thank you.

9 MR. WRIGHT: Thank you, Mr. Smead.

10 Mr. Strawn, you're up.

11 MR. STRAWN: Good afternoon. My name is Alex
12 Strawn, the chairman of Process Gas Consumers. We're a
13 voluntary trade association of major industrial companies
14 who use natural gas as either a primary component or a
15 feedstock in our processes. We seek, primarily, a rational
16 look at policies that promote increasing supply and share
17 transport rates for natural gas that support our member
18 companies.

19 Before I go forward, I just want to take
20 opportunity to thank the Commission for allowing me to speak
21 once again and also a broader thank you to the energy
22 community at large, which has really done an outstanding
23 job, in our opinion, in restoring the processes that allow
24 us to receive natural gas and also allow us to employ
25 millions of people and get them back to work. I say that

1 very sincerely as I address these proceedings because
2 without the robustness of the supply chain that we have in
3 place today we would not -- I would not be able to sit here
4 and talk so cavalierly about changes that we need to make in
5 the future because we have a decent support system in place
6 today. Thank you very much.

7 PGC, in general, supports policies designed to
8 encourage increased infrastructure, including natural gas
9 pipelines and LNG import terminals. We very much take note
10 of the initiatives sponsored by NGSHA and INGAA to improve
11 regulatory policies governing the building of pipeline
12 facilities and we offer our group's support for that
13 initiative.

14 In light of Katrina and Rita, PGC, in addition,
15 very much supports locational diversity in the siting of
16 LNG terminals. If you didn't know that before, you
17 certainly know it now. We want to reiterate the concerns --
18 something of an area that we really haven't talk about too
19 much today -- we want to reiterate our group's concerns
20 about post-Order 636 that pipelines are no longer subject to
21 mandatory, periodic rate review. We express concerns to a
22 degree over pipelines over-recovering their FERC-approved
23 rates.

24 The reason I say that is we're all experiencing,
25 to some degree, the detrimental effects of high costs of

1 natural gas in our processes and operations as industrial
2 consumers. At the same time, we are also concerned about
3 the rates we have to endure to transport natural gas on the
4 margin because any help is some help in trying to mitigate
5 the overall impact of higher gas prices in our processes and
6 the products that we make for the general public. We'd just
7 like to bring that to the attention of the Commission to
8 make you aware that we are concerned about it.

9 PGC wholeheartedly supports the continued efforts
10 to build the Alaska natural gas pipelines. And also I want
11 to bring up the fact that I personally, along with all of
12 the other members in our industrial group, have long
13 supported the notion of conservation or the use of energy
14 supplies and increase sufficiency. Every one of our member
15 companies has been actively involved in those pursuits for
16 some time. It's nice to see everyone is on the same page in
17 terms of that, particularly in light of these proceedings.
18 We continue to be vigilant and continue to look for evermore
19 creative ways to find means to conserve and efficiently use
20 natural gas in our processes. We continue to support the
21 increase to diversify natural gas supplies, including
22 environmentally. And I want to stress that as I talk to the
23 Commission and everyone here today -- environmentally
24 responsible efforts to explore and produce natural gas in
25 areas that are currently off limits. I want to stress

1 environmentally responsible because all of our member
2 companies have those same environmental responsibilities in
3 each of the regions where we produce products. We have
4 consumers who live in those areas. We have employees who
5 live in those areas, but we also need to balance that need
6 for environmental responsibility with the overall need of
7 our customers for our products that so many of them take for
8 granted, quite frankly.

9 I think most people in the country may take
10 granted the gas infrastructure up until Katrina and Rita. I
11 think they maybe don't understand how sensitive the product
12 mix that all of our companies have is to those gas supplies
13 and I think, if you saw some disruptions in supply of
14 certain products, people would begin to realize that it is,
15 indeed, imperative that we shore up the infrastructure that
16 we think of as just a standard -- a very high standard. We
17 have to shore it up. We have to improve it. And I really
18 thank the Commission for their forward look on this aspect.

19 In light of recent problems in the Gulf, we
20 appreciate the need, again, for locational diversity of
21 natural gas supplies, including locational diversity in the
22 offshore areas. One more time, we support the INGAA and
23 NGSA projects and their proposed rule. I won't go over all
24 of those areas, but I just want to make a couple of
25 antidotal comments and then I'll conclude my remarks.

1 I think what's happened with Katrina and Rita has
2 really pointed out how fragile our gas infrastructure can
3 be. And this locational notion of diversity of supply,
4 particularly in the non-producing regions, we view as
5 essential, if not critical, if not urgent at this point. We
6 need that locational diversity as quickly as we can get it
7 and as quickly as we can responsibly move in that direction.
8 We do not wish to be dependent on the blessings of good
9 weather year-to-year to ensure our processes.

10 I've heard a lot of comments. Certainly, I would
11 love to be playing golf or any other recreational activity
12 in the middle of winter as well, however, we cannot, as
13 industrial users, be solely dependent on the good fortune of
14 weather forecasting as we look at our long-term aspects for
15 succeeding in the marketplace. So we look forward very much
16 to having good weather. But, at the same time, I think it
17 points out very much how dependent we are on that aspect for
18 our insured supply.

19 One comment on demand destruction. Earlier in
20 the session some people made some comments that, perhaps,
21 some demand destruction is going on that will perhaps allow
22 us to bridge this winter. I don't enjoy talking about
23 demand destruction because that means member companies like
24 mine are experiencing difficulties. It means they can't
25 produce in the United States. I would say that wherever

1 we've been able to do so we have sought alternative energy
2 measures -- alternative replace fuels, diversity. We've
3 done everything we really have been able to do in the last
4 few years to try to shore up our supplies and to make sure
5 that our processes are robust going forward. I guess I
6 should say that the ship has sailed on many industries
7 already. We're trying to preserve what we have now.

8 I won't be specific because I don't want to point
9 out any one areas, but I would say that the people that are
10 still in place today have fairly robust means to supplement
11 supplies. But we need the help of the Commission wherever
12 we can so that we're allowed some rate help on the margin so
13 that we're viable going forward. And I suppose that, as far
14 as gas quality is concerned, we very much favor a rulemaking
15 -- I think the last time I spoke before the Commission some
16 months ago we said let's try something. Let's put something
17 in place making sure that supply is assured. We're
18 concerned about gas quality. Haven't had as many incidents
19 as we did some time ago with specifics. But, overall, in
20 light of Katrina and Rita, we need to make sure that the
21 maximum of our supply is put into the pipeline and I really
22 would push and advocate for that rulemaking.

23 Once again, I thank the Commission very much for
24 the opportunity to speak on behalf of the industrial
25 community. Thank you very much.

1 MR. WRIGHT: Thank you, Mr. Strawn.

2 MR. BROTHWELL: Good afternoon. My name is Sam
3 Brothwell. I head the Equity Research Effort at Wachovia
4 Securities, covering the natural gas and power industries,
5 which includes pipeline companies, utility companies and at
6 last one LNG developer. I want to thank the Commission for
7 the opportunity to participate in this forum. I hope my
8 comments will be helpful.

9 I'd like to quickly share a financial community
10 perspective on how the investors view the pipeline business
11 and make some observations to the Chairman's point about how
12 the risk profile of this industry has changed. Gas
13 pipelines certainly have been through some dark days, but
14 are definitely regaining their financial footing and
15 investors are once again becoming more interested in the
16 sector. The sector also faces new challenges, including
17 cost pressure, security of supply and overcoming obstacles
18 involving badly needed transportation and storage
19 infrastructure.

20 As you well know, energy prices have risen
21 sharply and the impact on consumers may not be fully
22 appreciated until the first heating bills arrive in another
23 couple of months. FERC can't do much about commodity
24 prices, but it can do a lot to facilitate the freer flow of
25 gas from where it's produced to where it's needed. Three

1 years ago I co-authored a report that discussed the rapidly
2 tightening U.S. natural gas supply picture. That piece
3 emphasized not only the need to develop more gas at the well
4 head but also the pressing need to build more logistical
5 infrastructure to move and store the commodity. I wasn't
6 counting on two hurricanes to prove my point, but that's
7 where we are. A lot of stuff needs to get built in a short
8 period of time and a lot of human and financial capital has
9 to be committed to make that happen. Investors see the
10 opportunity inherited in energy infrastructure. As great an
11 opportunity it is, it also carries risks, particularly in
12 committing large amounts of capital over long periods of
13 time against a shorter term and potentially volatile and
14 fickle revenue stream.

15 A good example of the pitfalls associated with
16 that kind of investing can be found in the airline industry.
17 Some years back a gas pipeline represented a fairly boring
18 investment -- not much upside, but not much downside either.
19 Today the risk profile of this industry has increased. Risk
20 is not synonymous with bad. The riskier your investment is
21 the greater its award potential tends to be, but so it its
22 potential for loss. As risk rises, investors demand the
23 opportunity -- notice that I didn't say guarantee -- of
24 higher returns for investments deemed to higher degrees of
25 risk. How have risks gone up? As we've heard today, the

1 pipeline business has certainly become more competitive.
2 Contract terms are shorter. Negotiated rates are the norm
3 and pipelines compete with each other to build new projects.
4 These are not bad things for consumers or investors.
5 Competition forces companies to be more efficient and
6 results-driven, but also does raise the risk profile for at
7 least the opportunity to earn a better return on invested
8 capital.

9 Financial risks have also increased. Rising cost
10 of everything from steel to fuel have added to the financial
11 burden of building and operating pipelines and related
12 facilities. Most recently two hurricanes in the Gulf have
13 underscored the fact that your assets can also be wiped off
14 the map. Not all risk is externally driven. As businesses
15 become more dynamic, investors have already borne the risk
16 of bad management decisions, which abounded a few years ago.
17 Regulations also is a key risk factor for investors. In my
18 experience, FERC has been an even-handed and constructive
19 agency. I believe your efforts to open the market and
20 foster competition has made this industry more efficient and
21 responsive despite the problems of the past few years.

22 I think investors view FERC as a thoughtful,
23 forward-looking and less political regulator, which are all
24 positive attributes. You acted swiftly, as you heard
25 earlier, to put forth a constructive to the Lakehead tax

1 issue last year. Of course, we've heard very positive
2 things today about the streamlining of the certification and
3 sighting processes. One of the greatest risks regulation
4 can impose to investors is that of uncertainty. We closely
5 watch changes in the makeup of any regulatory body. Rate
6 proceedings especially of the show cause variety raise
7 uncertainty as do changes in the boundaries of regulatory
8 jurisdiction or the extension of regulation into new areas,
9 harsher punitive rulings and decisions that depart from
10 generally accepted norms are also not well received.
11 Investors are numbers driven and they vote with their feet.
12 As a result, there's a necessarily a positive correlation
13 between perceived risk and cost of capital. It would
14 obviously be easy for me to sit here and preach that since
15 risk has gone up all we need is more equity in the capital
16 structure and higher allowed returns. But, as I found with
17 my kids, a blank check doesn't do much to inspire innovation
18 reaction.

19 From a gas consumers point of view, I think there
20 are two key issues that should be of utmost concern to
21 regulators -- continue reliability of supply and the cost of
22 heating my home. I think both of those go without saying.
23 To address those issues, we need more and better
24 infrastructure as we've heard today. The financial
25 community recognizes this and is putting up the capital to

1 get it done. Investors are accustomed to managing risks, but
2 uncertainty can't be managed. So, in that vein, I would
3 urge FERC to stay the successful course it has already
4 charted and look for ways to incentivize, not only the
5 construction of new facilities, but the more efficient use
6 of what we already have.

7 We've heard the concerns today about the level of
8 pipeline returns. A competitive market should assure that
9 investors and consumers benefit from gains in efficiency. I
10 would urge the greater use of market-based rates that reward
11 efficiency and peak performance. If investors see the
12 opportunity of a superior return because Company A is a
13 better operator or has a better project than Company B, they
14 will vote their investment dollars for Company A and lower
15 its cost of capital. Pipeline transportation makes up a
16 small portion of the total consumer gas bill in many parts
17 of the country such as the East Coast. Higher and volatile
18 bases differentials exacerbate rising commodity costs,
19 driving up the delivered cost of natural gas. That's a
20 direct reflection, of course, of the need for more pipeline
21 and storage capacity on peak days. We've heard a lot about
22 that today. I believe the cost of the financial opportunity
23 or incentive to finance that needed infrastructure is
24 probably outweighed by the economic and security benefits
25 that could be realized by consumers.

1 I think I heard somebody invoke the term
2 "insurance" earlier. I think that's how I would look at it.
3 Given that contract terms have gotten much shorter, it might
4 make sense to revisit tariff structures based on 30-year
5 depreciable asset lives. Shorter depreciation periods would
6 more closely reflect the economic reality of how quickly
7 capital must be recovered and would also bolster cashflow,
8 providing a greater incentive for reinvestment. The recent
9 energy bill has vetted FERC with more authority, which is a
10 good thing in my view, as I believe that local politics have
11 frustrated the development of needed infrastructure for too
12 long. Power must be used judiciously and I believe FERC has
13 been given a key leadership and facilitator role, guiding
14 not only the industry but your colleagues at state
15 commissions in solving the challenges we face. If I may, I
16 would urge you to use the carrot first, then the stick.

17 In closing, I think this conference has made it
18 clear that our energy challenges are as much about logistics
19 as they are about production of raw hydrocarbons and high
20 prices and volatility can in large measure be addressed
21 through the development of things between the well head and
22 the burner tip. In the realm of pipeline and storage, it's
23 not high rates that's hurting consumers. It's a lack of
24 capacity. FERC's efforts to invoke competition in this
25 sector will work and I believe the market is proving a

1 capable steward of consumer interests. Investors see that
2 and the companies I follow are ready and willing to put
3 capital to work to tackle these problems. But the risks and
4 rewards have to be in balance in order to continue
5 attracting needed capital.

6 Thank you again for the opportunity to share my
7 views with you today.

8 MR. WRIGHT: Thank you, Mr. Brothwell. Our last
9 speaker on the panel is Mr. Gildea.

10 MR. GILDEA: Thank you. I'm here on behalf of
11 the Electric Power Supply Association, the nation's trade
12 group that represents competitive generations and power
13 marketers. EPSA members and the rest of the competitive
14 generation sector produced about a third or more of the
15 competitive generation in the country today. They do that
16 using a variety of energy sources, including natural gas.
17 But they also importantly use coal, oil renewables and other
18 fuels. EPSA supports the collaborative regulatory process
19 and market-based solutions to the infrastructure problems
20 we've been talking about today. EPSA also strongly supports
21 the Commission's efforts to date to unbundle natural gas
22 sales and pipeline services, which have lead to the
23 development of an effective and, in our opinion, liquid
24 competitive wholesale natural gas market that does value
25 efficiency and flexibility in securing transportation

1 services for all shippers.

2 Due to the successful transition to open access
3 in this industry, unbundled pipeline services, natural gas
4 customers have access to firm, interruptible release
5 transportation and a wide variety of competitive offerings.

6 To go off my prepared remarks for a minute, I
7 think that's important. EPSA does not support a long-term
8 firm transportation or supply requirement. First of all,
9 our members have many different fuel sources besides gas.
10 In many cases, firm is not available in the markets we work
11 in and also when it's available it's very expensive. And,
12 for the merchant community, that's difficult. Additional
13 actions by state utility commissions to unbundle local
14 distribution service have allowed more efficient use of
15 competitive capacity and has promoted LDCs to release firm
16 transportation capacity on interstate natural gas pipelines,
17 either on a temporary basis or on a permanent basis. This
18 has enabled end use customers, such as us, an opportunity to
19 obtain firm transportation for their needs, for our use and
20 our needs. This is but one example of how we see dynamic
21 market forces have allowed natural gas wholesale and induced
22 customers -- LDCs as well as our generators to use the
23 pipeline capacity and the pipeline supply as efficiently as
24 possible to manage our costs and risks.

25 FERC Order 637 did a great job of opening the

1 door for more service options and great flexibility and
2 shorter term transportation services and further increased
3 the need to maintain the benefits of natural gas generation.
4 The reason is that high efficient natural gas generation has
5 become an essential component of both the natural gas
6 industry, as we heard today, and electric power markets. As
7 such, adequate gas supply is very important to generation.
8 Therefore, EPSA supports any and all efforts within FERC's
9 authority to move the current supply imbalance, including
10 new pipeline construction, LNG terminal certification,
11 facilitation of permitting for the Alaskan natural gas
12 pipeline. These efforts will enable increased gas supply
13 options and thereby reduce the current level of fuel risks,
14 price volatility and institute the consumer benefits of
15 having a cleaner, more efficient gas powered generation.

16 For that I'd like to speak to a minute. There
17 are essentially improvements we've experienced in the
18 technology of gas-fired and there are also improvements on
19 the horizon leading to a lower and more efficient use of the
20 gas that we're burning. As a matter of fact, between 1999
21 and 2003, the amount of gas-fired generation increased by
22 18.4 percent. However, the amount of natural gas consumed
23 for the generation only increased by 5.9 percent. This is
24 efficiency. More over, if all the power in 2003 was
25 generated by the most recent state-of-the-art gas turbines

1 now in place, natural gas usage and power production would
2 actually have decreased by 7 percent that year with the same
3 megawatt output.

4 A competitive market like ERCOT, there has
5 actually been a 10 percent improvement in efficiency for gas
6 fuel generation since 1999. An example in the less
7 competitive markets, for example, like Louisiana, average
8 heat rates for gas-fueled generation have actually
9 increased. Like other gas customers, generators have unique
10 demand characteristics for each of the power plants in their
11 portfolios. They serve functions as peaking, intermediate,
12 base loads, fully dispatchable or cogent units. In other
13 cases, natural gas customers require a consistent quality of
14 gas to be able to use their delivered fuel to operate on a
15 long-term basis without putting their reliability in
16 jeopardy. Additionally, generators need a consistent
17 natural gas quality in order to stay within environmental
18 parameters and restrictions. Therefore, consistent fuel
19 parameters in pipeline tariffs will provide greater
20 certainty for generators.

21 And, to speak to Commissioner Kelly's question
22 earlier on that, many of the EPSA members closely support
23 the research that's going on right now on the long-term
24 impacts of the LNG introduction into our gas. And,
25 essentially, we have concerns but we really need more

1 research and information before we come to conclusions.

2 In the case of my company, our engineers are
3 looking at the long-term ramifications of the change in the
4 gas quality. Something like that just doesn't come about
5 overnight. Electric power depends on sufficient
6 coordination between pipeline's generators, RTOs and other
7 operators of the system. Real-time operating data,
8 including gas flow pressure is all vital to generators.
9 Therefore, an established and transparent communication
10 protocol between the pipeline, the generator and the RTO is
11 critical so that generators can make efficient scheduling
12 decisions and efficient scheduling will increase, again,
13 pipeline usage.

14 Going back to the question of the experience we
15 had in New England a couple of years ago, we believe that
16 essentially the market cleared out. The market determined
17 that the price for the customer to heat his home was more
18 valuable than the gas to the generator. So the gas went to
19 the highest valued customers. The Commission must continue
20 to strive for a level playing field with all shippers as
21 well as pipelines and third party service providers. This
22 can best be achieved through a well-defined pipeline service
23 available to all customers, which will then facilitate
24 construction of needed gas infrastructure additions and
25 increase the efficiency for gas generation nomination and

1 scheduling. To achieve this, pipelines must maintain a
2 balance between customized services and off-the-shelf
3 services in order to support liquid secondary markets for
4 transportation. Pipeline service offerings that are more
5 transparent as to allow the timing and flow to be visible to
6 customers, allow the customers then to be armed with
7 information to better meet their interday and real-time
8 needs will improve the wholesale market. Thank you.

9 MR. WRIGHT: Thank you, Mr. Gildea.

10 I'll turn to the Chairman and Commissioners for
11 questions.

12 CHAIRMAN KELLIHER: I have one question for Mr.
13 Brothwell and Mr. Strawn. Others are invited but not
14 required to respond as well.

15 With respect to the price transparency language
16 of the new energy law, we are authorized but not required to
17 issue rules to assure a greater price transparency in
18 natural gas sales and transportation. My question is, do
19 you think we should exercise that authority and do you have
20 any particular suggestions on what we could do in that area?

21 Let me just prompt you with one suggestion that
22 the Commission proposed last year and didn't get a
23 particularly warm reception. The Commission proposed
24 requiring daily reporting on natural gas injections and
25 withdrawals, the net change. That wasn't something that got

1 a great response. I think industrials liked it and public
2 gas utilities like it and I think everyone else didn't like
3 it.

4 (Laughter.)

5 CHAIRMAN KELLIHER: One flaw in the proposal last
6 year is that the Commission couldn't require reporting from
7 all storage operators and donors. Under the new authority,
8 we can. Does that suddenly mean it has more merit or is the
9 reception the same? Part of the logic is the notion with
10 that Thursday report -- the logic of the proposal is the
11 Thursday report creates great volatility on that one data
12 point. If you have five data points, you'd have less
13 volatility. If you had complete reporting in those five
14 data points, you arguably have less volatility. That's the
15 argument. I'm curious whether you find it persuasive at
16 all.

17 MR. BROTHWELL: A lot of that is probably
18 addressed better to the industry. But, I guess, as an
19 analyst that follows the pipeline industry, and also
20 obviously pays attention to the Thursday storage report, we
21 do see a lot of volatility around that. It's the one piece
22 of information that the market can grasp. Unfortunately,
23 we've also seen in the past that sometimes that data is not
24 necessarily reliable and you wind up with a revision a week
25 or two later. I think improving the quality of that data

1 would certainly be a benefit. You always have to balance
2 those types of benefits against the administrative burden
3 that is associated with it. So I think, you know, those two
4 issues perhaps somewhat compete with one another. But I
5 would agree that the quality of the data could be improved.

6 CHAIRMAN KELLIHER: When you analyze gas markets,
7 you don't see a crying need for data that is currently
8 missing?

9 MR. BROTHWELL: My area of coverage is not so
10 much on the commodity side. It's more in everything that
11 exist beyond the well head. But I would agree that there is
12 definitely a need for better information in the market,
13 especially given the volatility that we see right now.

14 CHAIRMAN KELLIHER: Thank you.

15 MR. STRAWN: I guess, in general, I echo a lot of
16 the same sentiments about the quality of the data more than
17 anything else. Whether you do it in five different data
18 points or one, the concern of most of our membership has
19 been about the reliability and the consistency and the
20 quality. Most of our members aren't real fond of revisions
21 unless they're absolutely necessary because we're basing a
22 lot of our decisions in some cases on that data that comes
23 out. We're making decisions on a weekly, monthly basis.
24 But, to answer your specific question, we think it's
25 adequate right now -- what's in place today -- as long as

1 the reliability of the data is there and as long as the
2 Commission, in all processes that are involved in that
3 gathering of the data, can be assured.

4 CHAIRMAN KELLIHER: Thank you. Colleagues?

5 COMMISSIONER BROWNELL: I'm wondering if we could
6 ask Mr. Bickle and Mr. Strawn to do a little swing tour
7 talking about diversity of supply to New England and
8 California.

9 (Laughter.)

10 COMMISSIONER BROWNELL: I see Commissioner
11 Keating here from Massachusetts. I'm sure he'd be happy to
12 chat with you after the meeting.

13 Sam, you talked about accelerated depreciation.
14 Say a little bit more about that, if you will.

15 MR. BROTHWELL: Again, I think you have, over the
16 past decade or so, seen the business evolve into a shorter
17 term model. We've heard contract terms are shorter. It's
18 much more of a short-term business, yet a lot of the
19 regulator style has perhaps remained rooted more in the
20 past. So, specific to depreciation, obviously, when you're
21 looking at cashflow, that is something that is -- there is
22 no non-cash charge and gives also the flexibility, perhaps,
23 to address some of the over-earning or the appearance of
24 over-earning, which, you know, maybe somewhat illusionary
25 because you do have the need to invest capital and reinvest

1 capital in this industry. And I think the depreciation
2 periods that we're using don't necessarily reflect the
3 urgency of that. So I think it's a way of improving
4 cashflow and addressing the appearance of over-earning.

5 COMMISSIONER BROWNELL: Thank you.

6 Mr. Gildea, you referenced the outcome of the New
7 England cold snap and alluded to, I think, the conclusion
8 that our analysis came to, which is the market actually
9 worked. But it is an issue that periodically comes up. Is
10 ESPA talking to AGA to kind of work through this? Are the
11 existing Northeast ISO rules adequate to address this issue?
12 What do we need to do longer term? This is not something
13 that you can afford to ignore and certainly we can't either.

14 MR. GILDEA: As an EPSA member, I'm not aware of
15 a formal discussion with AGA at this time, although myself
16 and other EPSA members that are in leadership capabilities
17 within the organization have participated in the NAESB
18 dialogue that transpired on this issue. I think that there
19 is actual continued discussion within that forum on this. I
20 don't believe that there's a set date for a deliverable or
21 anything like that, but there is a continued process with
22 the NAESB organization today to continue discussions along
23 those lines.

24 COMMISSIONER BROWNELL: I would just encourage
25 kind of even more dialogue, if you can. So we talked

1 earlier today about perceptions and perceptions become
2 reality. In a volatile market, I wouldn't want to see that
3 happen. Thanks.

4 COMMISSIONER KELLY: Michael, while we wait for
5 more research to be done on the gas quality issue, is the
6 status quo working for you and your members? Are you able
7 to work out gas quality issues to your satisfaction on an
8 informal basis with members of the industry?

9 MR. GILDEA: I am not aware of any case today
10 where it's not. The big thing for generators, from my
11 company's perspective and the ones that I've spoken with,
12 isn't so much the gas quality itself, but the change of the
13 gas quality. Because when you change you have to make
14 changes to the generator and also have changes occur that
15 you don't know about. It causes reliability problems on the
16 plant itself. The fact that we're all kind of just going
17 through this at this time we really are just kind of getting
18 our feet wet.

19 In part I would say I'm not aware of any. In the
20 same sense, we're just getting into what we're experiencing
21 with the change in gas.

22 COMMISSIONER KELLY: Thank you.

23 Sam, to pick up on the accelerated depreciation
24 issue, I know that Congress passed -- in the Energy Policy
25 Act, they provided for depreciation for gathering lines now

1 seven years -- over a period of seven years and have also
2 eliminated the alternative tax minimum. Should we be
3 informed by what Congress has done and the Energy Policy Act
4 regarding gathering as we look at other infrastructure?

5 MR. BROTHWELL: At the risk of presupposing what
6 the legislative intent was there, I'll take a swing at it.
7 It was a recognition, as we've seen in the past, for
8 accelerated depreciation or things like investment tax
9 credits have been proposed. It's to address a need for
10 investment in infrastructure. I would surmise that that's
11 what was behind it in the realm of setting pipeline tariffs.
12 Again, I think coming at it from a different angle I believe
13 we need to recognize the fact that this has become a riskier
14 and more short-term business in which investment must be
15 recovered over a shorter time horizon. So that is one idea
16 that I've heard advanced that could make pipeline tariffs
17 more appropriately reflect the economic reality of investing
18 in this type of infrastructure, which is not really a 30-
19 year business any more.

20 COMMISSIONER KELLY: James, you mentioned that
21 our current market test for storage market power doesn't
22 really give us the right picture of market power. Can you
23 be more specific at this point about things we might look to
24 change in that test?

25 MR. WILSON: No one's mentioned Red Lake gas

1 storage this year.

2 (Laughter.)

3 MR. WILSON: But, in that particular case, the
4 usual method was applied and you focused mainly on the
5 storage facilities. That request for market-based rates was
6 denied. I argued in that case that storage provides a
7 number of services, slack capacity, imbalance -- it's a very
8 complex set of services in a complex market. In that
9 particular instance at that time, there was a lot of slack
10 capacity. So there's a lot of flexibility in the system.
11 So there was actually the potential for an Arizona storage
12 facility to actually compete with California storage
13 facilities. Whereas, only a few years earlier, there had
14 been constraints between those locations. There's the
15 locational dimension. There's the various products that may
16 or may not be relevant. There's many different substitutes.
17 It's a very complex question that I think is probably best
18 addressed when someone actually comes before you and asserts
19 that a facility has market power. In that particular
20 instance, there was on such testimony.

21 COMMISSIONER KELLY: As opposed to our doing it
22 in rulemaking, for example.

23 MR. WILSON: I'm not sure how much progress you'd
24 make in a generic setting because I think you have to look
25 at particular circumstances. It may never happen.

1 COMMISSIONER KELLY: Thank you.

2 CHAIRMAN KELLIHER: I wanted to ask staff if they
3 have any exceptionally brilliant questions.

4 (Laughter.)

5 CHAIRMAN KELLIHER: At this point, noting how
6 late we are in the day, no?

7 (Laughter.)

8 COMMISSIONER BROWNELL: And the cafeteria is
9 going to close.

10 CHAIRMAN KELLIHER: We did promise an open forum
11 session. I wanted to see if anyone in the audience is
12 willing to take us up on that.

13 MR. LINDERMAN: Thank you.

14 Mr. Chairman, Chuck Linderman at the Edison
15 Electric Institute. I want to address a question that both
16 Commissioner Brownell and Kelly raised about the gas quality
17 rulemaking. At this time I would not be enthusiastic about
18 your going to a gas quality rulemaking until such time as
19 the necessary testing is completed to let us understand how
20 LNG is going to perform in combustion terms and combined
21 cycle. Is the research that the other two commissioners
22 have referred to -- we have not seen that moving out of the
23 Department of Energy and bringing this forward on a rapid
24 basis. It will tell us what we need to know when we need to
25 know it. Likewise, as Bob Wilson testified on our behalf

1 during the gas quality technical conference in the spring
2 and referred to when he was here, that we would urge you to
3 be certain that your own staff finds a way to make public
4 the results and data of testing and comparative testing of
5 turbines and pipeline rate cases that have gone on over the
6 course of this year.

7 I am told of some results where a pair of
8 turbines were tested -- similar designed turbines -- same
9 gas, different parts of a state, very different results.
10 That's as much as I know. The engineers and the others who
11 worked for us on that will have more details. It seems to
12 me that is crucial to all of us to understand how LNG and
13 gas quality is going to perform and change the way in which
14 we think about the use of the electric system with LNG in
15 it. And, as Mr. Wilson further observed and as Mr. Manning
16 observed this morning -- he carefully qualified that saying
17 that the gas quality problems in Keyspan at this point do
18 not effect their appliances. He did not say they do effect
19 either their turbines or their busses. I would urge you
20 let's not rush into a gas quality rulemaking until we have
21 some publicly available data that both GE, Westinghouse and
22 the OEMs are willing to support that can be used for
23 analysis. Thank you.

24 COMMISSIONER KELLY: Do you have any suggestions
25 on how to speed up that research?

1 MR. LINDERMAN: Tell all our friends in Congress
2 and the appropriators to undertake that research testing,
3 Commissioner Kelly, and make it a priority as the
4 Administration and others seek to cut back on spending at
5 this point.

6 COMMISSIONER KELLY: What kind of budget are you
7 looking at for that?

8 MR. LINDERMAN: I haven't done a budget estimate.
9 My back of the arm calculation would say that you're looking
10 at, at least, a million dollars per turbine.

11 COMMISSIONER KELLY: Thank you.

12 CHAIRMAN KELLIHER: Thank you. Any other
13 comments from our guests?

14 (No response.)

15 CHAIRMAN KELLIHER: I want to thank the panels
16 for the quality of presentation and your patience.

17 I'll make a few short concluding remarks at this
18 time. This conference has really had two focuses. First,
19 it's had a short-term focus on the effects on the
20 infrastructure of Hurricanes Katrina and Rita and the price
21 effects of that. There's been a broad recognition that
22 prices will be higher as a result of the hurricanes. The
23 Commission is determined that they don't go higher still
24 because of manipulation. We will act quickly to implement
25 some new authority in the Energy Policy Act of 2005 to that

1 end.

2 Also, long-term, this panel, of course, has had
3 more of a long-term focus -- how do we get the energy
4 infrastructure built in this country. There's recognition
5 the gas industry has changed significantly. The pipeline
6 sector is a riskier business than it used to be. Commission
7 policies have been very successful, though, and there seems
8 to be agreement on that. We have successfully secured
9 investment in the infrastructure and the Commission itself
10 has been extremely efficient in making decisions. I think
11 most pipelines -- our average for pipeline projects is under
12 a year and a quarter to make a decision from the point of
13 application to a final decision. Given the strictures of
14 NEPA, that is pretty efficient. So we do a good job at our
15 end in terms of administrative efficiency.

16 We are looking at some changes on gas storage
17 policy to perhaps reform our gas storage pricing policies
18 and encourage some expansion in that area. But I think, all
19 in all, pretty good news for Commission policy. You opposed
20 a couple of specific recommendations for changes that we
21 will take under advisement. But, again, I want to thank you
22 for the quality of the presentations and your patience.

23 Last is best sometimes. Mr. Wright?

24 MR. WRIGHT: I just had a couple of housekeeping
25 items. If you have any comments you'd like to put in the

1 record, please file them in the next two weeks in Docket No.
2 AD05-14. If any of the panelists wish to file your
3 presentations in the record, please do so as soon as
4 possible. Also, the presentations and the transcripts will
5 be found on the FERC website at FERC.gov.

6 (Whereupon, at 1:55 p.m., the conference was
7 concluded.)

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